GOLOMT BANK

Committed to and Investing in Excellence

ANNUAL
REPORT
2011

CONTENTS

REPORT OF THE CHAIRMAN OF THE BOARD OF GOVERNORS

Once again we achieved record balance sheet growth with total assets increasing by MNT 558 billion (USD 399 million) or 35 per cent. to reach MNT 2.13 trillion (USD 1.53 billion). Within that aggregate growth the key determinant of sustainable growth, comprising our depositary liabilities, increased by MNT 523 billion (USD 337 million) or 40 per cent. to reach MNT 1,840 billion (USD 1.32 billion).

D.Bayasgalan
Chairman of the Board of Governors

To our Shareholders, Esteemed Clients, Trusted Banking Correspondents, Business Partners and Valued Employees.

I am very pleased once again to report to you upon the results of the Bank's operations during 2011, our 17th year of continued successful business evolution during which, we once again were able to deliver record earnings to our Shareholders and other stakeholders.

As I write the twin purported leading locomotives of growth within the global economy struggle to achieve momentum. The United States remains constrained by bipartisan politics from addressing its combined challenges of job creation and deficit reduction while Europe proves unable to address itself effectively to the correct policy response which is not the bipolar choice of austerity versus growth but the overall timing and speed of deficit reduction complemented by the correct mix of structural reforms. While these perhaps inappositely self-described "advanced economies" struggle to overcome their sclerosis, throughout 2011 our small Mongolian economy continued to demonstrate its solid foundation by recording nominal growth in GDP of 28.7 per cent. transforming into real GDP growth of 17.3 per cent., the third highest in the world!

Underpinned by such a positive macro-economic background we in Golomt Bank were gratified that once again we managed to achieve another year of sustained progress measured in both revenue and non-financial terms.

Late in 2011 we established our first wholly owned subsidiary, Golomt Securities LLC with an issued and fully-paid-up capital of MNT 100 million to provide securities brokerage services to both existing and prospective future clients. Accordingly, in compliance with International Financial Reporting Standards we present for the first time both the financial results of the Group (comprising both the Bank and our embryonic subsidiary) as well as the Bank on a standalone basis. Since our subsidiary had not commenced trading before the year end the differences between the two sets of accounts are *de minimis* (amounting to only MNT 1.1 million out of total assets of over 2.1 trillion). Accordingly for ease of reference my commentary hereunder will address only the results of the Bank on its standalone basis.

Once again we achieved record balance sheet growth with total assets increasing by MNT 558 billion (USD 399 million) or 35 per cent. to reach MNT 2.13 trillion (USD 1.53 billion). Within that aggregate growth the key determinant of sustainable growth, comprising our depositary liabilities, increased by MNT 523 billion (USD 337 million) or 40 per cent. to reach MNT 1,840 billion (USD 1.32 billion). The official statistics of The Bank of Mongolia confirm that once again at the year end Golomt Bank was entrusted with the highest volume of deposits by our valued corporate, institutional and retail clients; this in turn reflecting the unique degree of confidence which our depositors place in us as the most trusted name within the domestic banking system.

On the asset side, growth was equally well balanced with the net credit portfolio expanding by MNT 461 billion (USD 330 million) or 59 per cent..

Of paramount importance to the achievement of our strategic goal of remaining the Bank of choice for all participants in the Mongolian financial system is the generation of soundly based balanced and sustainable growth. This fundamental objective was reflected through generating growth in all critical balance sheet metrics with assets increasing by 35 per cent.; deposits by 40 per cent. and risk assets by 59 per cent. while conserving the highest level of liquidity and lowest loans to deposits ratio among the three banks classified by The Bank of Mongolia as Tier 1.

While we are gratified by the confidence reposed in the Bank by our clients which has resulted in us sustaining our position as the country's leading bank as measured by volume of deposits we remain determined to avoid complacency concentrating our key corporate focus upon retaining our perceived status as the country's best bank through offering a customer centric focus from which the leadership role will continue to emerge.

Turning to the key measure of profitability, post tax profit attributable to the Shareholders rose by MNT 10.2 billion (USD 7.3 million) to reach MNT 30.2 billion (USD 21.7 million) an increase of 51 per cent. being marginally above the mean of our overall balance sheet growth metrics. In turn earnings per share rose to MNT 1,288.8 an increase of 41 per cent..

The main drivers of revenue growth were a 65 per cent. increase in net interest income complimented by an increase in non-asset based revenues of 101 per cent. which constituted 41 per cent. of net operating income. While operating expenses grew by 53 per cent. (reflecting increased investment in property, IT and human resources as we continue to improve customer service and build future revenues) we achieved a very welcome improvement in the important cost/income efficiency ratio which declined from 44 per cent. to 37.5 per cent. as we captured increasing economies of scale.

Offsetting those positive attributes was the unwelcome growth in credit loss expense which reversed from the generation of net recoveries during 2010 to a charge of MNT 8.68 billion in 2011 of which the majority related to a single credit exposure where the borrower lost its case in seminal taxation arbitration proceedings. The Bank holds significant valuable collateral in this case and remains confident of recovery in full within the comparatively short-term.

Notwithstanding the foregoing higher level of charge-offs, by the year end the impaired credit portfolio exhibited a marginal reduction in percentage terms to the 2 per cent. level having reduced from the levels of 4.4 per cent. and 2.1 per cent. in 2009 and 2010 respectively. The fair value of collateral held against the impaired loan portfolio amounted to MNT 76.83 billion which represented 3.4 times the book value of MNT 22.56 billion loans classified as impaired while the coverage ratio at the year end amounted to 88.64 per cent. up from 70 per cent. in 2010.

Our underlying profitability entailing a constant return on average assets of 1.7 per cent. and a return on average equity of 26 per cent. over both of the past two years fed through to an organic 36 per cent. increase in equity. This was further complemented in June 2011 by the addition of MNT 25 billion (then equivalent to USD 20 million) through the issuance of 2,632,551 new fully paid equities shares to Swiss-Mo Investment AG, a Swiss company controlled by Mr. Urs E. Schwarzenbach, the renown entrepreneur and philanthropist who also serves as Honorary Consul of Mongolia for the German speaking regions of Switzerland. Thereafter Mr. Urs E. Schwarzenbach accepted our invitation to join the Board of Directors. We welcome both his equity investment and active participation in the deliberations of the Board where we are already benefiting from his wise counsel.

The decision of the Board and of our parent company, Bodi International LLC, to invite additional equity shareholders to join the Bank, after over 16 years of proud exclusive ownership reflected the ongoing evolution of the strategy first adopted in 2007 when Credit Suisse became the first of the world's leading commercial financial institutions to enter the Mongolia banking system through the medium of a subordinated convertible loan extended to the Bank. Thereafter, during 2010 that was followed by the entry of Stanhope Investments acting upon behalf of Abu Dhabi Investment Council (one of the world's leading sovereign wealth funds) under a similar subordinated convertible loan structure.

This expansion of our ownership philosophy reflects the dramatic growth in Mongolia's economy which, notwithstanding our generation of one the highest rates of return on equity within the global banking industry, is not able to keep pace with the rapidly increasing volume of credit demand from our leading corporate clients as our economy continues its exponential rate of growth.

As a post-balance sheet event, early in 2012 we welcomed as an additional equity shareholder, Trafigura Beheer B.V., a Netherland's corporation (which is the world's third largest independent trading company having long enjoyed a very active role in Mongolia's minerals and mining sector) who subscribed for 1,300,000 new fully paid ordinary shares for a consideration of MNT 21.2 billion (then equivalent to USD 15.9 million) constituting 5.02 per cent. of our equity base.

At the year-end our capital base amounted to MNT 189.1 billion (USD 135 million) an increase of MNT 61.3 billion or 48 per cent. over the level of MNT 127.8 billion (then USD 101.7 million) at the end of 2010 resulting in a capital adequacy ratio of 13.3 per cent. (13.5 per cent. in 2010). Following the further equity injection from Trafigura, by the end of the first quarter of 2012, total capital had risen to MNT 220 billion (equivalent to USD 166.8 million) of which 79 per cent. constituted Tier 1 capital resulting in the capital adequacy ratio rising to 15 per cent.

We are gratified that we continue to receive expressions of interest from leading international entities of similar stature eager to invest in the Bank so as to contribute to and benefit from its future growth. We welcome such expressions of interest and continue to develop them into mutually beneficial long-term affiliations.

In ongoing compliance with the highest international standards of corporate governance we established a further committee of the Board, the Remuneration and Nomination Committee, to supplement the workings of the long established Audit and Risk Management Committees. In addition our organization structure continued to evolve to reflect the needs of our clients resulting in the establishment of a new Credit Division responsible for all aspects of the credit sanction, disbursement and continuous compliance monitoring process as to create a greater degree of separation of these vital roles from the business development and consolidated risk management functions.

In what proved a very busy and demanding year for our management and staff in terms of both rapidly expanding business and structural development issues, the Bank has achieved considerable progress in the latter sector most notably in once again expanding our physical office network by 18 branches to reach 88 while expanding the ATM network to 132 outlets and broadening the range, scope and accessibility of our expanding electronic banking platform.

We increased our team members by a net 261 to reach 1,329 by the year end while expanding our commitment to professional training to enable them better to serve the ever increasingly complex financial requirements of our growing client base. In addition we continued to develop both the introduction of the First Pension Scheme (the first private pension programme launched in Mongolia) as well as a generous ESOP (Employee Share Option Plan) so as better to align the long-term interests and benefits of our valued employees with those of the Bank and its stakeholders while ensuring that they benefit from competitive levels of salaried compensation and performance related bonus. By the year end we had welcomed 41 of our long-standing employees as new shareholders of the Bank with a combined holding of 24,850 shares equivalent to 0.1 per cent. of the equity.

In fulfillment of our established commitment to remain leading corporate citizens we continue to dedicate a significant percentage of our revenues to support worthy causes in Mongolia focused particularly upon the alleviation of poverty, medical, educational and sporting causes as well as playing an increasing role in supporting our Government in its endeavours to attract greater volumes of foreign direct investment to accelerate the pace of economic growth and improve the welfare of all our citizens.

We were honoured once gain to secure the award as the Best bank in Mongolia from "The Banker" and for the first time from "Euromoney" in addition to our customary nomination as "Top Bank" by the Mongolian National Chamber of Commerce and Industry followed early in 2012 by the similar accolade from "Global Finance". While achieving a clean sweep of all such awards is certainly gratifying the greatest reward of all is the continuously expanding volume of business which our valued clients entrust to us for effective execution upon their behalf.

Accordingly I would again express the appreciation of all of us in the Golomt Bank family to our valued clients and partner banks for the business which they entrust to us in ever increasing volumes; secondly, to all the citizens, companies, agencies and institutions throughout Mongolia for the confidence which they continue to repose in the

Bank; thirdly to the Minister of Finance, the Governor of The Bank of Mongolia and their officials for their supervision and guidance; fourthly, to our progressively expanding Shareholder base; and finally, upon behalf of myself and my fellow Members of the Board, to all our 1,329 loyal, diligent and dedicated staff members whose commitment and efforts are the true foundation upon which our continued success and future prosperity is based.

In conclusion, as we move forward into 2012 and the years beyond we can reflect with a degree of quiet confidence upon the sanguine prospects which Mongolia and its citizens now face. While the global economy and other economic blocks continue to face material uncertainties, we in Mongolia, after lagging in economic development in prior years, now find ourselves at the epicenter of global growth benefiting from a juxtaposition of exceptional growth in regional economies which is likely to result in the creation of a virtuous cycle of expanding volumes of commodity exports underpinned by robust prices over the medium-term.

This in turn is fuelling the exponential pace of development as we finally begin to achieve the world scale exploitation and environmentally sensitive monetization of our unique factor resource endowment. However all concerned must remain alert to the potential dangers of rapid economic metamorphosis arising from depleting non-renewable resources if we are to achieve the desired long-term fiscal stability for this generation and those that will follow. That places a very heavy burden upon our nation's leaders to make the correct but difficult choices which will establish a sound base of enduring prosperity for the Motherland and all its citizens while affording protection against cyclical volatility.

2012 will indeed prove a year of exceptional importance for Mongolia and its citizens as our nation faces two developments of seminal importance. First, the Parliamentary elections to be held in June and, secondly, the commencement of commercial production from our country's flagship Oyu Tolgoi gold, copper and silver mining project. The juxtaposition of these two seminal developments will contribute enormously to setting the trajectory for our nation's progress towards full economic maturity as the exponential growth in our export volumes and values feeds through to significantly enhanced public sector revenues whereby, for the first time, our government will enjoy the comparative luxury of discretionary fiscal policy and revenue expenditure options. In turn the responsibilities which will devolve upon those entrusted with the leadership and governance of the Motherland of Mongolia in the immediate years ahead will prove of vital importance in determining how Mongolia and its citizens best adapt to the challenges of exponential growth and ensuring that monetization of our unique mineral factor endowment becomes the precursor of our destiny of sustained growth.

All of us in Golomt Bank stand ready to support our Government and all stakeholders involved at this time of dramatic evolution of our economy in making the correct policy determinations and implementing the optimum financial solutions which will effectively transmute rapidly increasing national output into long-term benefits and improvements in welfare for all.

Our focus remains exclusively upon Mongolia thus giving us unrivalled expertise and unique competitive advantage within our country through our ability to draw upon the resources of our major investors. While we remain acutely aware of the disparate challenges ahead and that growth will not always occur in linear fashion, as we enter the eighteenth year of our incorporeal existence we reaffirm our commitment always to serve our nation and our clients to the very best of our abilities and judgement thereby continuing our fundamental mission of delivering sustainable value to all our respected stakeholders.

D.Bayasgalan
Chairman of the Board of Governors

REPORT OF THE CHIEF EXECUTIVE OFFICER

In turn our underlying growth reflected important developments within our capital account which over the course of the year rose by MNT 61.3 billion (USD 44 million) to reach MNT 189.1 billion (USD 135 million) an increase of 48 per cent. with Tier 1 equity rising by MNT 56.4 billion (USD 40 million) or 67 per cent. to reach MNT 140.2 billion (USD 100 million).

John P. Finigan
Chief Executive Officer

To All Our Greatly Valued Stakeholders

After a relatively benign year of steady recovery throughout 2010 the global economy encountered a renewed round of significant challenges in 2011 as increasing concerns surfaced regarding European sovereign debt and its impact upon financial markets giving rise to progressively increasing volatility throughout the year.

2011 had begun in a positive vein with the global economy showing signs of recovery reflecting manufacturing gains in most major economies and unemployment levels declining in the United States and Europe. However, increasing investor uncertainty and volatility adversely impacted economies and markets throughout the latter half of the year. Significant causes included political unrest in the Middle East and North Africa, the European sovereign debt crisis, economic disruptions resulting from the natural disaster in Japan, political gridlock in the United States and the related downgrading of US sovereign debt.

Ultimately this translated into an estimated rate of 2.5 per cent. growth in global GDP for 2011 which however camouflaged a continuing divergence into a two speed economy with the dynamic Asian and transitional market nations achieving growth rates of 3.5 and 3.8 per cent. respectively (reinforcing the shift in economic gravity to the emerging world) while the industrialised nations of the United States and Europe fell behind with sub-optimum rates of 1.8 and 1.7 per cent..

Against this background Mongolia continued to benefit from its unique mineral factor endowment and favourable geographical location by recording 28.7 per cent. growth in nominal GDP to reach MNT 10.8 trillion (USD 7.8 billion) with real growth of 17.3 per cent. comprising final consumption of 64 per cent. and investment of 58 per cent. with the trade deficit of 22 per cent. constituting the balancing factor and being funded by foreign direct investment.

As is more fully addressed later in this report, our exports increased by 64 per cent. to reach USD 4.8 billion while imports increased by over 104 per cent. to reach USD 6.5 billion resulting in a trade deficit of USD 1.7 billion which was sustained by record foreign direct investment flows of USD 4.7 billion. Capital equipment, mostly comprising machinery and transport equipment for the mining and construction sectors thus underpinning future growth in output, constituted 18.8 per cent. of total imports.

Government revenues rose likewise by 41 per cent. to reach MNT 4.4 trillion (USD 3.15 billion) with expenditure and net lending rising by 56 per cent. to MNT 4.79 trillion (USD 3.43 billion) resulting in a net budgetary deficit of MNT 391 billion. Meanwhile official foreign exchange reserves rose to record levels although reflecting the heavy demand for imports over the course of the year, in common with other mineral exporting nations the parity of the Tugrik against the Dollar depreciated by 11.4 per cent., having appreciated by 14 per cent. in 2010. Meanwhile inflation, much of it comprising imported foodstuffs from China, remained stubbornly high at 11.1 per cent..

These positive macro-economic developments fed through to a year of dramatic growth for the country's banking sector while Golomt Bank once again achieved another record year of balanced growth in both assets and revenues while retaining our now customary leadership role as the largest deposit taker in the domestic banking system.

Following the incorporation of our new subsidiary, Golomt Securities LLC, we now present our audited accounts for both the Bank and on a group basis. Accordingly for the sake of clarity the following analysis reflects a comparison of the Bank's financial results on a standalone basis.

Assets rose by MNT 558 billion (USD 399 million) to reach MNT 2.13 trillion (USD 1.53 billion) an increase of 35 per cent. underpinned by deposit growth of 40 per cent. very much in line with the systemic average. Total deposits rose by MNT 523 billion (USD 374 million) to reach MNT 1.84 trillion (USD 1.32 billion) as the Bank continues to enjoy the lion's share of the corporate deposit market with over 31 per cent. of the total placed across the complete spectrum of 14 commercial banks.

In turn our underlying growth reflected important developments within our capital account which over the course of the year rose by MNT 61.3 billion (USD 44 million) to reach MNT 189.1 billion (USD 135 million) an increase of 48 per cent. with Tier 1 equity rising by MNT 56.4 billion (USD 40 million) or 67 per cent. to reach MNT 140.2 billion (USD 100 million). This constituted both 74 per cent. of total capital entailing a high Tier 1 capital adequacy ratio of 9.8 per cent. within our aggregate capital adequacy ratio of 13.3 per cent., which is 11 per cent. above the minimum stipulated by The Bank of Mongolia.

Our policy of continuous successful enhancement of our core capital base reflects both organic growth and supplemental increases from leading international partners with Swiss-MO Investment AG being welcomed as new equity shareholders during the course of 2011 (who were in turn followed by Trafigura Beheer B.V. early in 2012).

Reflecting the underlying positive dynamic of the economy we progressively but prudently improved our operating efficiency by expanding the loan portfolio by MNT 461.3 billion (USD 330 million) to reach MNT 1,246 billion (USD 892 million) an increase of 59 per cent.. Notwithstanding that significant increase in credit creation our year-end loans to deposits ratio of 67.7 per cent. remained the most conservative of the three Tier 1 banks (as defined by The Bank of Mongolia, our central bank) and materially below the systemic average of 83.4 per cent..

Our continued support for Mongolian enterprises through the extension of credit facilities to stimulate growth in output and jobs was accomplished through the retention of the strictest of credit criteria with no compromise on credit quality as manifest in the marginal reduction of the impaired credit portfolio from 2.1 per cent. in 2010 to 2 per cent. in 2011, which again was materially below the systemic average of 2.9 per cent..

The soundly structured progression revealed within the balance sheet, entailing growth in assets of 35 per cent. supported by growth in deposits and capital of 40 per cent. and 48 per cent. respectively, fed through into credit growth of 59 per cent. and resulted in a symmetrically commensurate 51 per cent. improvement in profitability as the Bank enjoyed another record year.

This entailed an increase in post tax profit of MNT 10.2 billion (USD 7.3 million) to reach MNT 30.2 billion (USD 21.7 million) reflecting consistent returns on both average assets of 1.7 per cent. and a commendable 26 per cent. on equity for the second consecutive year thereby reinforcing our robust capacity for organically generated capital.

The main drivers of revenue growth were an MNT 19.2 billion (USD 13.8 million) increase in net interest income reaching MNT 48.9 billion (USD 35 million) constituting a 65 per cent. rise complemented by an increase of just over 100 per cent. in non-asset based revenues which now constitute over 40 per cent. of net operating income. These non-interest earnings increased by MNT 16.9 billion (USD 12.1 million) representing broadly based growth in card and transactional services and loan fees as well as significantly improved earnings from customer driven foreign exchange transactions reflecting the 85 per cent. growth in Mongolia's foreign trade over the course of the year. This favourable juxtaposition of revenue streams provides welcome corroboration of the diversity of the Bank's customer centric product offerings and business mix.

The only material negative element of the year's operations was the increase in credit loss expenses jointly attributable to one significant corporate credit following the loss of a high profile public sector arbitration case and higher levels of impairment in the SME portfolio. In both instances we enjoy sound levels of collateral which are expected to feed through to good levels of future recoveries.

Operating expenses grew by 53 per cent., very much in line with the growth in profitability reflecting increased investment in people, property and IT as we constantly improve our product mix and customer service to build future revenues. Staff costs accounted for 64 per cent. of the increase and 44 per cent. of the total. In turn this fed through to improved productivity with profit per average staff member rising from MNT 20.7 million in 2010 to MNT 25.9 million, a 25 per cent. increase. Notwithstanding our ongoing commitment to increased team members we achieved a very significant improvement in the critical cost to income efficiency ratio which declined to 37.5 per cent. from 44 per cent. in 2010 as we captured increasing economies of scale while rationalizing expenditures.

In addition to those positive revenue achievements the Bank continued its pioneering role across a broad swathe of sectors designed to improve customer services, operating efficiency and ease of access to our multiple delivery platforms. Among the more notable achievements were:

- welcoming Swiss-MO Investment AG as a new Shareholder followed early in 2012 by Trafigura Beheer B. V.
- opening 18 new offices bringing the total to 88
- increasing our ATM network by 32 per cent. to 132 outlets
- introduced first mobile ATM service in Mongolia
- enhanced internet banking and introduced mobile banking apps for smart phones
- developed new Certificate of Deposit products
- introduced MNT-CNY dual currency credit card
- pioneered "Easy-Start" mortgage programmes for young families
- received a securities underwriting license from the Financial Regulatory Commission
- established a 100 per cent. owned subsidiary, Golomt Securities LLC, offering securities brokerage services to investment clients
- appointed exclusive collaborator of Ministry of Agriculture and Light Industry for their agricultural development loan programme
- acting as adviser to Mongolia's two world scale mining projects (Oyu Tolgoi and Tavan Tolgoi)
- sole arranger and provider of a USD 21.6 million pre-delivery financing for MIAT, Mongolia's national aviation carrier in respect of a new-build Boeing 767-300 ER aircraft in advance of long-term financing by the Export Import Bank of the United States
- secured initial published credit ratings from the two dominant international credit rating agencies, Moody's and Standard & Poor's (in the case of Moody's initially at a higher rating than they afforded to Mongolia's sovereign credit)
- exclusive winner of "Best Bank in Mongolia" awards from the three leading international financial journals, "Euromoney", "The Banker" and (early in 2012) "Global Finance"
- recognized as ranking 6th in the world as measured by growth in assets and 10th in the world by growth in Tier 1 capital among the Top 1,000 Bank Contenders according to "The Banker".

In terms of organization structure we created a new Credit Division to segregate all aspects of the credit approval, extension and monitoring process from the business development functions.

In fulfillment of our established commitment to remain leaders in corporate citizenship we continue to dedicate a significant percentage of our revenues to support worthy causes in Mongolia focused particularly upon the alleviation of poverty, medical, educational and sporting causes.

We are playing an increasing role in support of the Government's programmes to promote growth and investment both domestically and internationally through sponsorship of the Mongolian Economic Forum and Regional Investment Forums held in regional capitals across the nation and "Discover Mongolia", the leading event for the country's mining industry. In addition, in exclusive collaboration with The World Economic Forum and the Office of President Elbegdorj, we took the leading role in sponsoring the Responsible Mining Initiative and the PACI Initiative (Partnering Against Corruption Initiative) within Mongolia.

In the vital human resources area which remains our most valuable asset, we welcomed over 200 new employees to the Golomt Bank family after their initial in-depth induction training programmes. We continue to share our success in both revenue and non-revenue terms with all our dedicated staff members. In addition to generous increments to both salaries and performance related compensation we pioneered the introduction of an employee share option plan (ESOP) to further supplement the benefits introduced by the First Pension Fund in the prior year. By the year end 41 of our long-serving employees had exercised the option to become Shareholders of the Bank.

In compliance with the provisions of The Banking Law 2010 we strengthened our corporate governance and risk control functions by appointing a new Remuneration and Nomination Committee of the Board and welcomed to the Board of Governors and both Audit and Risk Committees Mr. Urs E. Schwarzenbach representing Swiss-MO Investment AG, whose influence is already greatly valued. In addition we continue to benefit from the expanding involvement of our two foreign Representative Offices located in Beijing and London in their support for our growing volume of international business.

In concluding this review of the year, I would once again express the appreciation of all of us in the Golomt Bank family to our valued clients and partner banks for the business which they entrust to us in ever increasing volumes; secondly, to all the citizens, companies, agencies and institutions throughout Mongolia for the confidence which they continue to repose in the Bank; thirdly to the Minister of Finance and the Governor of The Bank of Mongolia and their officials for their supervision and guidance; fourthly, to the Board of Governors and our esteemed Shareholders, Bodi International LLC, and Swiss-MO Investment AG followed most recently by Trafigura Beheer B.V.; and, finally upon behalf of myself and my fellow management team members, to all our loyal, diligent and dedicated staff members whose commitment and efforts are the core foundation upon which the Bank's enduring success and future prosperity is built.

As we move forward into 2012 we continue carefully to assess prospects in the global, regional and domestic economy so as best to position Golomt Bank to respond effectively to the downside stresses and challenges envisaged while enabling us to remain best positioned to capitalize prudently upon expansionary opportunities as the cycle unfurls.

Despite monetary policy being extremely accommodative the overall global picture remains disturbing. A confluence of disappointing economic news of weakening fundamentals and declining PMIs (Purchasing Managers' Indices) in most countries as eroding consumer confidence in the United States and Europe impacts upon Asian export volumes has resulted in expectations for global growth in 2012 declining to a meager 2.2 per cent..

The United States despite easy credit conditions and slack monetary policy, continues to generate only torpid growth with feeble employment growth and slow housing sales constrained by sclerosis and election year partisanship notwithstanding the potentially drastic impact of the "fiscal cliff" of increased taxation and expenditure cuts from January 2013 onwards.

Meanwhile the stresses within the peripheral nations of the Euro area arising from ferocious fiscal contraction are transmuting into ever escalating interest rates on their unsustainable burdens of public sector debt thereby exacerbating the stresses on the European banking sector. For central banks the dilemma of policy adjustment through austerity or stimulus has never been so asymmetrical. Despite the injection of over EUR 1 trillion (USD 1.34 billion equivalent) of concessionary funding from the European Central Bank to over 800 European banks, credit creation remains frozen as banks strive to de-lever by shrinking their balance sheets to meet new regulatory requirements dictating higher levels of capital and liquidity. The relentless pressures of austerity in the peripheral vortex make it increasingly likely that one or more of the chronic deficitory nations will be forced to withdraw from the Euro area in what would only prove to be disruptive circumstances leading inevitably to a new round of vertiginous global financial disruption akin to the 2008 failure of Lehman Brothers.

Meanwhile closer to home in our major trading partner, China, faces the twin challenges of shrinking export demand and a weak housing market which is likely to require greater emphasis upon stimulating renewed growth through fiscal policy measures in advance of a year of politically important leadership changes.

Nonetheless, it must not be overlooked that the direct impact upon Mongolia of any slowdown in China's rate of growth would be muted by the sheer size differential between the two economies with China's GDP of USD 6.7 trillion even at the low officially forecast rate of 7.5 per cent. growth generating incremental output growth of USD 500 billion (equivalent to more than 60 times Mongolia's 2011 GDP).

Against such a challenging backdrop global investor sentiment is inevitably becoming increasingly risk averse thereby putting additional downward pressure upon commodity prices. While we certainly envisage these falling further below their recent record high levels, we do not foresee any sustained dramatic weakness to levels which could erode the marginal profitability of Mongolia's high grade mineral exports with their favourable transportation logistics. In addition Mongolia's economy is further immunized from adverse cyclical price declines through the impending dramatic expansion in our export volumes as our two major mining projects, first, Oyu Tolgoi, then Tavan Tolgoi, shortly advance into their world scale production phases. Golomt Bank is naturally honoured to be playing significant supporting roles in the financings for both these projects of national significance.

In parallel with these transformational extractive initiatives is the development of our domestic transportation infrastructure embracing both rail and road projects to create access to international markets, in tandem with major enhancement of both the energy and water sectors accompanied by rapid expansion of the construction sector encompassing commercial, residential, educational, medical, leisure and tourism projects.

Despite such a positive domestic background macro-economic risks remain and must be addressed in the shape of high inflation and an expansionary fiscal policy further stimulated by rapidly increasing levels of foreign direct investment accentuating both inflationary concerns and consequential exchange rate volatility. Other concerns are rampant growth in money supply and the accelerating extension of credit notwithstanding the high central bank policy rate. Accordingly, it is only prudent to recognize the inevitable impact of evolving business cycles with appropriate caution to avoid the risk of exuberance becoming irrational.

Accordingly, whilst endeavouring to avoid the dangers of hubris we remain sanguine that the authorities, both before and after the parliamentary elections in June, will continue to succeed in their objective of steering our rapidly expanding economy safely through this dramatic growth trajectory while retaining underlying equilibrium and creating real growth in output and jobs.

Against such a propitious background Mongolia and its citizens can look forward with confidence to a bright future. With our highly trained and dedicated staff members and growing range of international affiliations Golomt Bank stands ready to assist all parties involved in that process with the most efficient delivery of the widest range of banking and financial services as we strive relentlessly to fulfill our mission of remaining the banking partner of choice for all engaged in this most attractive and enticing of all the world's growth economies.

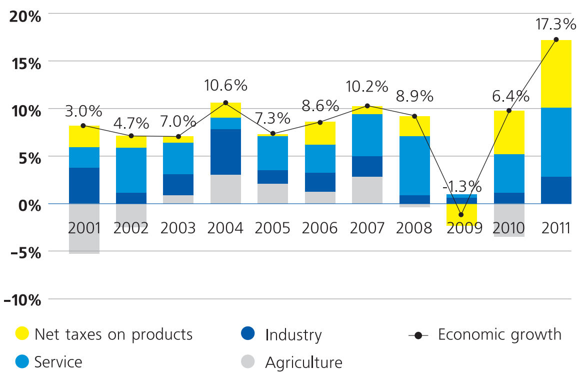
John P. Finigan
Chief Executive Officer

ECONOMIC REVIEW

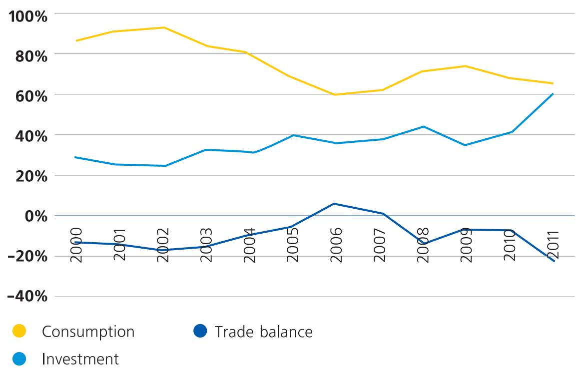
ECONOMIC GROWTH

Mongolia enjoyed robust economic growth throughout 2011 with real Gross Domestic Product (GDP) growth reaching an unprecedented level of 17.3 per cent. a dramatic increase over the level of 6.4 per cent. achieved in 2010. Nominal GDP expanded by 28.7 per cent. to reach MNT 10.8 trillion (USD 7.8 billion). In terms of percentage contribution to overall growth, the service sector amounted to 42 per cent., net taxes contributed 41.4 per cent., while industrial production and construction constituted 16.3 per cent..

Real GDP growth (%)



GDP structure (%)

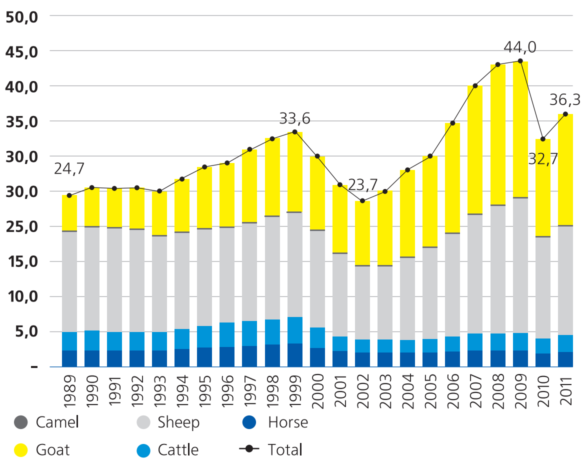


Total investment rose to 58 per cent. (41 per cent. in 2010), while final consumption (disposable and budgetary) declined to 64 per cent. from 67 per cent. in 2010. In consequence the balancing factor of the trade balance had a deficit of 22 per cent. in 2011 reflecting high levels of capital equipment and diesel imports.

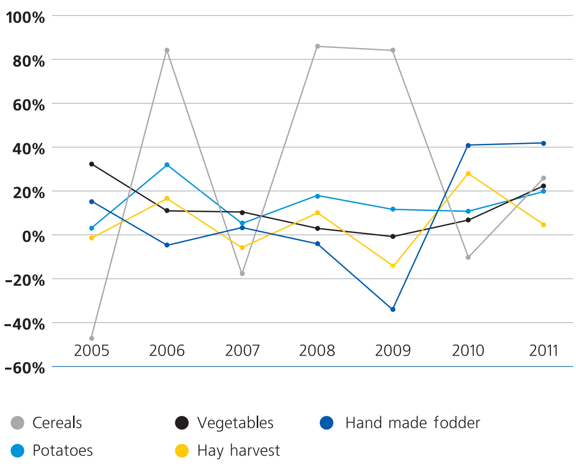
Agriculture

Reflecting relatively benign weather in 2011, agricultural production exhibited a most welcome recovery rising by 16.9 per cent. in absolute terms. The total number of livestock increased by 3.6 million reaching 36.3 million, comprising 15.9 million goats, 15.6 million sheep, 2.3 million heads of cattle, 2.1 million horses and 280,000 camels, Compared to 2010, the number of herders declined by 16,000 to 311,000.

Number of Livestock (millions)



Growth in Crop Output



Mongolia enjoyed the biggest harvest in its history in 2011 after low production in 2010 due to the "Zud"- the prolonged and severe cold winter of 2009-2010. On a year-on-year basis, cereal production increased by 25.6 per cent. to reach to 446,100 tonnes, while wheat production increased by 26.2 per cent. to 435,900 tonnes; potato production by 20.1 per cent. to reach 201,600 tonnes and vegetables by 20.3 per cent. to 98,900 tonnes becoming self-sufficient in both wheat and root vegetables.

Industry

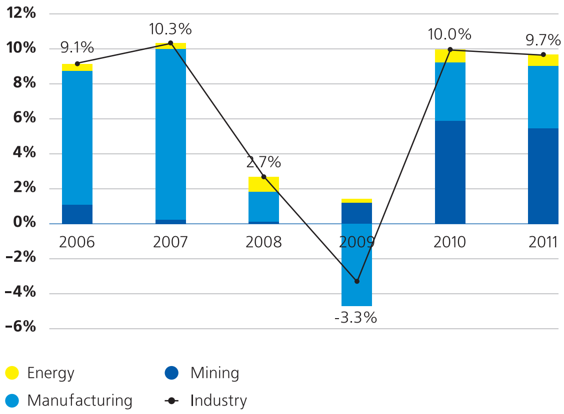
In 2011, coal production rose by 22.6 per cent. to reach 30.9 million tonnes, iron ore output by 77.3 per cent. to reach 5.7 million tonnes and crude oil by 16.8 per cent. to a record 2.5 million barrels.

Commodity Production

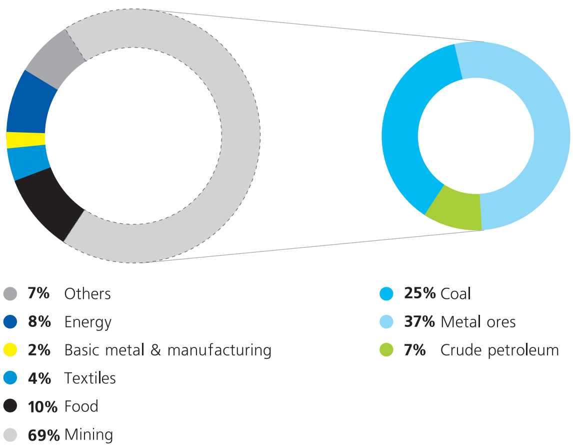
		2009	2010	2011	'09-'10	'10-'11
Coal	thous.tonnes	13,163.9	25,246.4	30,940.1	91.8%	22.6%
Crude oil	thous.barrels	1,870.0	2,181.4	2,548.9	16.7%	16.8%
Copper concentrate	thous.tonnes	533.1	522.0	513.7	-2.1%	-1.6%
Molybdenum concentrate	tonnes	5,263.6	4,348.0	3,977.0	-17.4%	-8.5%
Gold	kilogrammes	9,803.3	6,037.1	5,702.6	-38.4%	-5.5%
Iron ore	thous.tonnes	1,379.0	3,203.2	5,678.3	132.3%	77.3%
Fluorspar concentrate	thous.tonnes	115.3	140.7	116.4	22.0%	-17.3%
Zinc concentrate	thous.tonnes	141.5	112.6	104.7	-20.4%	-7.0%

Total production within the mining sector increased by 23.1 per cent. in volume terms and 4 per cent. in value terms to reach 9.5 per cent. in real terms making up 57.4 per cent. of the total sectoral growth, while industrial production increased by 9.7 per cent. to reach MNT 5.03 trillion. The share of the mining sector within overall industrial output has been progressively increasing from the level of 64.5 per cent. in 2008 to almost 70 per cent. in 2011.

Industrial Production Growth



Structure of Industrial Production

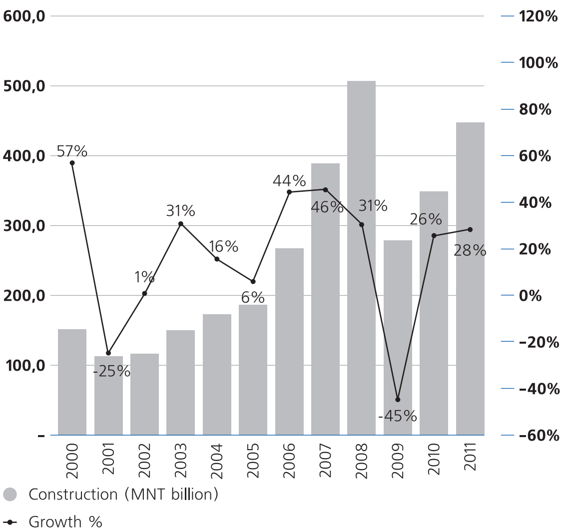


Manufacturing production rose by 11.6 per cent. year-on-year. The main drivers of growth were food production which increased by 10.5 per cent., textile output which rose by 1.7 per cent. and non metal products (excluding basic metal manufacturing) up by 40.5 per cent. with output in the metal products sector up by 9.2 per cent. and energy sector output growth by 5.8 per cent. (in the latter case for the second consecutive year). The proportionate contribution of the respective sectors is shown in the Figure: Structure of Industrial Production above.

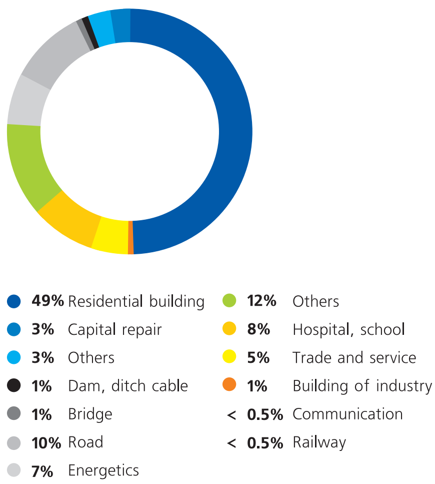
Construction

Construction and installation activity increased to reach MNT 450.7 billion, a rise of MNT 99.9 billion or 28.5 per cent. compared to 2010. At the national level, 84 per cent. of the increased volume was executed by domestic companies, 8.1 per cent. by government, and 7.9 per cent. by foreign organisations. Contrasted with 2010, residential building increased by 44 per cent. to MNT 134.4 billion, industrial construction by 37.9 per cent. to reach MNT 4.6 billion, trade and service buildings by 21.8 per cent. to MNT 14.6 billion and hospital, school, and cultural institution buildings by 42.6 per cent. to MNT 64 billion.

Construction Sector



Structure of the Construction Sector



Services

In 2011, service sector output grew by 17.1 per cent. to reach MNT 4,431 billion in real terms through the main drivers of domestic trade, transportation and storage services. In 2011, the share of the services sector to GDP reached 40.9 per cent. while total wholesale and retail trade expanded by MNT 3,231.3 billion, up by 55.7 per cent. year-on-year. Broken down into the two categories, wholesale trade grew by 75.2 per cent. year-on-year to constitute 77.3 per cent. of aggregate domestic trade, while retail trade rose by 12.9 per cent. year-on-year to constitute 22.7 per cent. of the total.

EXTERNAL TRADE

External trade turnover in 2011 reached USD 11.3 billion (MNT 15.5 trillion), up by 85.1 per cent. year-on-year when total exports expanded by 64.4 per cent. to reach USD 4.78 billion (MNT 6.57 trillion) while imports increased sharply to reach USD 6.52 billion (MNT 8.97 trillion) up by 104 per cent.. As a result, the trade deficit reached USD 1.75 billion (MNT 2.4 trillion) which was more than six times the level of the 2010 trade gap of USD 291.6 million (MNT 360 billion). The main drivers of the dramatic growth in total imports were capital equipment mostly for the rapidly expanding mining sector, and diesel fuel which constitutes a primary input to the exponential growth in mining sector exports.

Six key mineral exports comprising coal, copper concentrate, iron ore, crude oil, zinc and gold constituted 87 per cent. of total exports while cashmere exports added an additional 4 per cent. constituting to 91 per cent. of exports. In terms of percentage contribution to total exports, coal exports rose by 73.1 per cent., copper concentrate rose by 10.3 per cent., iron ore by 9.8 per cent., and crude oil by 5.2 per cent.. While Mongolia's exports are dominated by the minerals sector the growing diversification of the individual elements is progressively reducing our dependence on the single mining sector thereby increasing our resilience to external shocks.

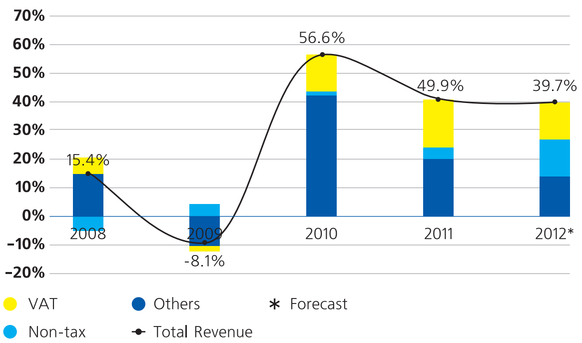
In 2011, 92.1 per cent. of our exports flowed to China, with only 2 per cent. to Russia, 1.9 per cent. to Canada and 1.1 per cent. to Italy. Correspondingly Mongolia imported 30.8 per cent. by value from China, 24.5 per cent. from Russia (of which 94.6 per cent. constituted energy imports), 8.2 per cent. from the United States and 7.4 per cent. from Japan.

Foreign Direct Investment flows into Mongolia constituted another record amounting to USD 4.71 billion up by 178.7 per cent. from the level of USD 1.69 billion achieved in 2010. In consequence, the overall balance of payments showed a surplus of USD 27.8 million in 2011 in contrast to the surplus of USD 873.1 million in 2010.

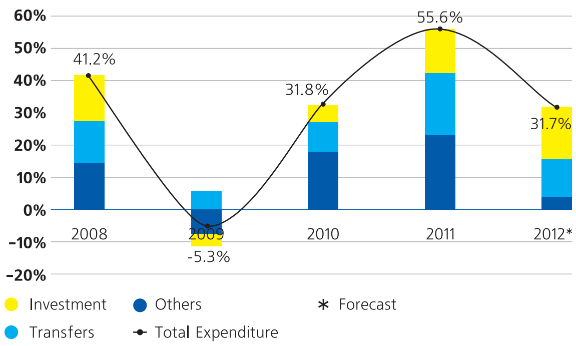
GOVERNMENT BUDGET

Total fiscal revenues also achieved the record level of MNT 4,400.6 billion up by 40.9 per cent. year-on-year, while the total expenditure and net lending rose commensurately to MNT 4,792 billion up by 55.6 per cent. year-on-year, resulting in a fiscal deficit of MNT 391.4 billion equivalent to 3.6 per cent. of GDP. The Government has announced an expansionary budget strategy for 2012 predicated upon a 39.7 per cent. increase in revenues to amount to MNT 6.1 trillion which is estimated to entail 38.1 per cent. of GDP. Within that total non-tax revenue is estimated to be MNT 1,070 billion or 32.4 per cent. of total revenue while VAT is estimated to increase by 50.7 per cent. to reach MNT 1,671 billion.

Budget Revenues



Budget Expenditures



It is forecast that total expenditure and net lending in 2012 would rise to MNT 6,309 billion, up by 31.7 per cent. year-on-year with aggregate budget expenditure comprising 50.6 per cent. investment and 36.6 per cent. current transfers.

INFLATION

The Mongolian economy suffered an unwelcome return to double-digit inflation during the first half of 2011 due to high imported food costs, increased economic activity and government spending. Inflationary pressures eased somewhat in the second half resulting in CPI inflation of 10.2 per cent. by the year end, of which food inflation entailed 8.2 per cent.. This increase was mainly driven by meat and meat production prices which increased by 19.9 per cent. year-on-year. The components of headline inflation were meat and meat production at 30.3 per cent., clothes and textiles at 18.3 per cent., transportation at 16.6 per cent., and housing at 12.2 per cent..

THE CIRCULAR FLOW OF MONEY THROUGH THE ECONOMY (2011)

Consumption

Factor Payments

Markets for Factors of Production:

Population: 2,834,206 (+1.9%)
Labor productivity growth: +3.5%
Number of registered unemployed: 57,171 (+49.5%)
- UB city: 29,331 (+222.7%)

Number of people have acquired a job at the new workplaces: 73,234
- Agriculture: 13,361
- Construction: 12,930
- Wholesale & retail trade: 8,761
- Mining & quarrying: 7,260

Unemployment rate: 8.9%

Employment in industry:
- Mining & quarrying: 16,500 (+0.6%)
  - Mining of coal: 5,887 (+12.9%)
  - Mining of metal ores: 8,320 (-3.8%)
- Manufacturing: 25,866 (+9.3%)
  - Food products: 10,331 (+7.5%)
  - Textiles: 4,580 (+8.4%)
  - Chemical products: 1,166 (+17.8%)
  - Non-metallic products: 2,456 (+6.8%)
  - Basic metals: 1,426 (+24.2%)
- Energy sector: 14,431 (+1.5%)
  - Electricity & thermal energy: 10,997 (+0.0%)
  - Collection & distribution of water: 3,434 (+6.5%)

Income

Households:

Average salary: MNT 450 thous (+18.7%)
- Agriculture: MNT 194 thous (+13.1%)
- Mining: MNT 752 thous (+28.9%)
- Manufacturing: MNT 433 thous (+27.4%)
- Energy: MNT 424 thous (+14.4%)
- Construction: MNT 455 thous (+67.3%)
- Wholesale & retail trade: MNT 312 thous (+30.2%)
- Hotels & restaurants: MNT 317 thous (+2.6%)
- Transport, storage & communication: MNT 510 thous (+21.1%)
- Financial intermediation: MNT 992 thous (+36.7%)
- Real estate, renting, other business activities: MNT 353 thous (+12%)
- Public administration: MNT 455 thous (+7.4%)
- Education: MNT 381 thous (+2.8%)
- Health: MNT 382 thous (+3.6%)

Financial Markets:

- Money Supply M2: MNT 6,427 billion (+37.3%)
- Money Supply M1: MNT 1,741 billion (+50.4%)
- Reserve money: MNT 1,660 billion (+75.5%)
- International reserves: USD 2,457 million (+8.4%)

Banking System
- 14 commercial banks (1 state owned)
- Total Assets: MNT 9,372 billion (+50.1%)
  - Largest 3 banks market share: 69.0%
  - Largest 5 banks market share: 85.1%
- Total Deposits: MNT 6,430 billion (+41.9%)
- Net Loans: MNT 5,337 billion (+78.3%)
- Post-tax profit: MNT 184 billion (+180.2%)
- Key ratios:
  - PDL ratio: 1.3%
  - NPL ratio: 3.2%
  - Liquidity ratio: 36.8%
  - LDR: 83.4%
  - ROAA: +2.4%
  - ROAE: +49.8%
  - ROAC: +34.8%
  - Gearing ratio: 12.8
  - CAR: 15.0%

- BoM policy rate: +12.25%
- Repo rate: +16.25%
- Overnight rate: +21.25%
- Emergency lending: +20.25%
- Average lending rate: +16.1%
- Average deposit rate: +10.5%

Stock market
- 76 broker dealer companies
- 332 registered companies
- Market Capitalization: MNT 2,169 billion (+57.8%)
- TOP 20 index: 21,687 (+46.9%)

Insurance market
- 17 insurance companies
- Total Insurance premium: MNT 5.4 billion (+93.8%)
- Total Assets: MNT 78 billion (+69.2%)

Non-bank financial institutions
- 192 NBFIs
- Total Assets: MNT 189 billion (+55.3%)

Savings and credit cooperatives
- 170 Savings and credit cooperatives
- Total Assets: MNT 59 billion (+39.1%)

Corporate saving

Private saving

Public saving

Taxes

This figure is a more realistic version of the circular flow diagram. Each yellow box represents an economic actor households, firms, and the government. Each blue box represents a type of market the markets for goods and services, the markets for the factors of production, and financial markets. The green arrows show the monetary flows among the economic actors through the three types of markets.

Firms:

Number of establishments registered in database: 67,409 (-8.7%)
- Active: 48,086 (+17.5%)
- Employment size class:
  - 1-9: 38,797
  - 10-19: 4,363
  - 20-49: 3,256
  - 50+: 1,670

GDP 2011: MNT 10.8 trillion = USD 7.8 billion
- Structure:
  - Final consumption: 64.4%
  - Cross capital formation: 58.1%
  - Net export: -22.5%

Economic growth: +17.3%

Agricultural production: +0.3%
- Number of livestock: 36.3 million (+11%)

Industry: +9.7%
- Mining: +9.5%
  - Mining of Coal: +22.6%
  - Crude petroleum: +16.8%
  - Metal ores: +4.1%
- Manufacturing: +11.6%
  - Food: +10.5%
  - Textile: +1.7%
  - Manufacture of basic metals: -9.2%
  - Other non-metallic products: +40.5%
  - Chemical products: +45.8%
- Energy: +5.8%

Construction: +14.3%

Service: +17.1%
- Wholesale & retail trade: +42.5%
- Transportation & storage: +13.8%
- Accommodation & food service activities: +14.6%
- Information & communication: +5.8%
- Financial & insurance activities: +11.4%
- Real estate activities: +5.7%
- Professional, scientific & technical activities: +8.5%
- Administrative & support service activities: +19.6%
- Public administration: +1.2%
- Education: 7.8%
- Human health & social work activities: +6.3%
- Arts, entertainment & recreation: +7.1%

Net taxes on products: +52.2%

Firm revenue

Markets for Goods and Services:

Core Inflation: +10.0%

CPI Inflation: +10.2%
- Food & non-alcoholic beverages: +8.2%
- Alcoholic beverages, tobacco: +3.3%
- Clothing, footwear & cloth: +13.9%
- Housing, water, electricity & fuels: +14.1%
- Furnishings, household equipment: +8.9%
- Health: +3.5%
- Transport: +16.1%
- Communication: +0.3%
- Recreation & culture: +7.1%
- Education: +11.9%
- Restaurants & hotels: +7.0%
- Others: +11.2%

MNT Exchange rate against:
- USD = 1,374.2 (+11.4%)
- EUR = 1,806.8 (+8.7%)
- JPY = 18.0 (+16.7%)
- CNY = 221.6 (+16.5%)
- GBP = 2,155.3 (+10.6%)
- RUB = 43.4 (+5.1%)

Investment

Taxes

Government purchases

Government:

Total Revenue: MNT 4,401 billion (+40.9%)
- Current revenue: MNT 4,141 billion (+34.5%)
  - Tax revenue: MNT 3,637 billion (+35.3%)
    - Income taxes: MNT 832 billion (-14.7%)
      - Corporate income tax: MNT 545.3 billion (+39.5%)
      - Personal income tax: MNT 230.7 billion (+43.3%)
      - Windfall tax: MNT 56 billion (-86.8%)
    - Social security contributions: MNT 450.4 billion (+36.0%)
    - Taxes on domestic goods & services: MNT 1,429 billion (+65.1%)
      - Value added tax: MNT 1,108 billion (+91.4%)
      - Excise taxes: MNT 294 billion (+9.5%)
    - Taxes on foreign trade: MNT 337 billion (+74.5%)
    - Others taxes: MNT 572 billion (+84.7%)
  - Non-tax revenue: MNT 504 billion (+29.3%)
- Capital revenue: MNT 17 billion (+195.2%)
- Grants and transfers: MNT 2 billion (-96.0%)

Total Expenditure & Net lending: MNT 4,792 billion (+55.6%)
- Current expenditure: MNT 3,234 billion (+43.4%)
  - Goods & services: MNT 1,528 billion (+31.0%)
    - Wages & salaries: MNT 801 billion (+23.6%)
    - Social security contributions: MNT 75 billion (+20.5%)
    - Purchase of goods & services: MNT 727 billion (+40.3%)
  - Subsidies & transfers: MNT 1,669 billion (+59.3%)
    - Subsidies to public enterprises: MNT 111 billion (+38.5%)
    - Social security fund: MNT 498 billion (+21.6%)
    - Social assistance fund: MNT 128 billion (+31.2%)
    - Other transfers: MNT 151 billion (+9.9%)
- Capital expenditure: MNT 1,067 billion (+80.6%)
  - Domestic investment: MNT 925 billion (+82.6%)
- Net lending: MNT 491 billion (+110.2%)

Fiscal Deficit: MNT 391 billion /3.6% of GDP/

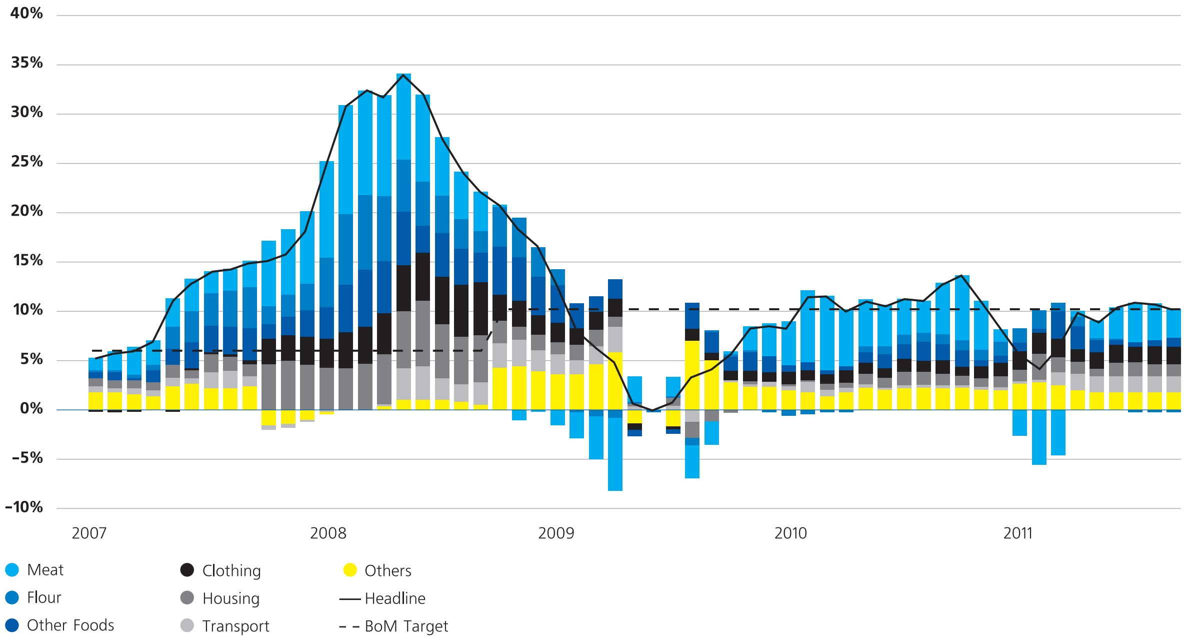
External Trade:

Total Exports: USD 4,780 million (+64.4%)
- Coal: USD 2,250 million (+155.1%)
  - 21.1 million tonnes (+26.2%)
- Copper concentrate: USD 964 million (+25.0%)
  - 572.8 thous tonnes (+0.7%)
- Iron ore: USD 437 million (+72.3%)
  - 5.8 million tonnes (+61.4%)
- Crude petroleum oils: USD 252 million (+63.4%)
  - 2.5 million barrel (+22.7%)
- Cashmere: USD 190 million (+9.2%)
  - 3,370 tonnes (-17.4%)
- Zinc concentrate: USD 143 million (+6.4%)
  - 120,700 tonnes (+0.8%)
- Gold: USD 113 million (-36.6%)
  - 2.7 tonnes (-47.5%)

Total Imports: USD 6,527 million (+104.0%)
- Trucks: USD 578 million (+177.2%)
  - 24,435 (+99.9%)
- Cars: USD 438 million (+166.4%)
  - 56,120 (+112.8%)
- Diesel: USD 706 million (+77.5%)
  - 635,300 tonnes (+27.2%)
- Petrol: USD 346 million (+51.4%)
  - 322,500 tonnes (+13.3%)
- Bulldozer, grader & roll: USD 373 million (+267.8%)
  - 1,918 pieces (+148.8%)
- Food products: USD 329 million (+37.2%)
- Base metals & articles thereof: USD 587 million (+188.9%)
- Chemical products: USD 253 million (+50.2%)
- Plastic products: USD 229 million (+108.6%)

Trade Deficit: USD 1,747 million (x6 times)

Inflation Contribution



In response to high inflation in 2011, The Bank of Mongolia tightened monetary policy and raised the benchmark policy rate three times by a total of 125 basis points to reach 12.25 per cent. and the banking sector reserve requirement ratio has raised to 11 per cent. from 9 per cent.. The huge increases in government expenditure (particularly social disbursements) have contributed materially to higher inflation expectations having become more entrenched with fiscal expenditures rising by 55.6 per cent. during 2011 to reach MNT 4.8 trillion.

Moreover, the effects of higher inflation combined with the rising imbalance on the trade account flowed through into exchange rate movements: where the parity of the Tugrik against the dollar and our other major trading currencies progressively depreciated. Depreciation of the parity of the Tugrik supports exports while increasing import prices. For a country like Mongolia with a high propensity to import, exchange rate volatility in turn feeds through to higher inflation as import prices ratchet upwards thereby creating an unwelcome spiral of accelerating inflation in turn feeding through into currency weakness. These inflation pressures caused by both supply and demand imbalances proved particularly marked during 2011.

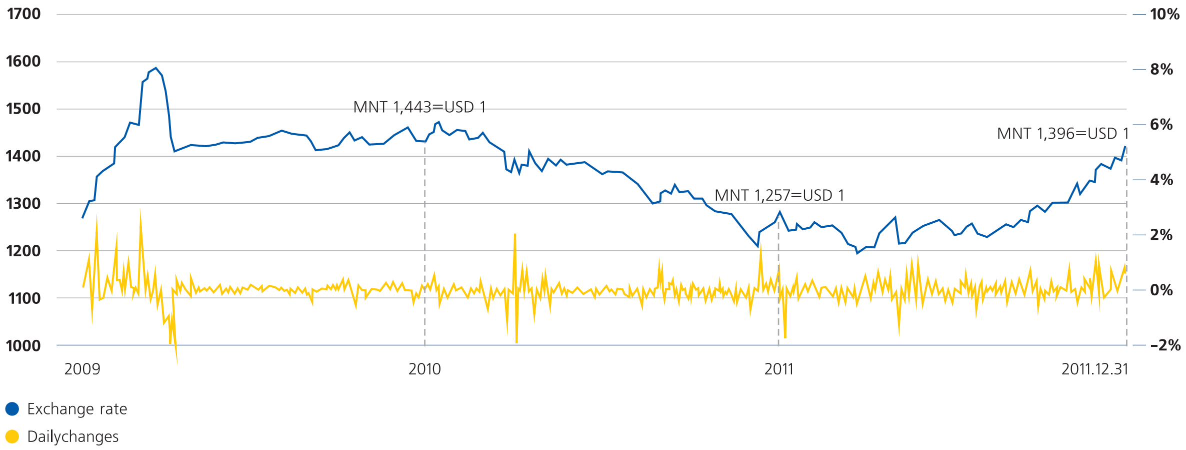
In turn the continued adoption of the classical policy response to accelerating inflation in the form of macroprudential regulatory action to increase the policy interest rate creates added burdens on the country's corporate sector through increasing the cost of capital thereby constraining optimum output growth. Accordingly the challenge of addressing such consistently high levels of inflation remains the critical monetary policy issue for our regulatory authorities.

EXCHANGE RATE

A paramount policy objective of The Bank of Mongolia is to ensure stability of the national currency, the Tugrik. Stability of national currency necessarily dictates the combination of low inflation and a stable exchange rate. With the latest inflation data revealing a level of 10.2 per cent. in 2011 one element of that policy aspiration is clearly under challenge. After appreciating by 14.7 per cent. in 2010, the currency continued to exhibit high volatility with a trajectory somewhat similar to a roller-coaster rising to an unsustainably strongest level of Tugrik against the dollar of 1,195.27 in March 2011 before falling back to its weakest level of 1,396.37 by the year end resulting in the underlying volatility of 16.82 per cent. and a coefficient of variation of 3.8 per cent..

In recent years the exchange rate has fluctuated significantly predicated upon external trade and investment inflows in addition to the domestic monetary aggregates. Growing export volumes and values underpinned by robust FDI inflows contributed to official foreign exchange reserves rising to a record USD 2.27 billion notwithstanding the rapid growth in imports of heavy machinery, equipment and diesel fuel.

Official Exchange Rate against USD (2009 – end 2011)

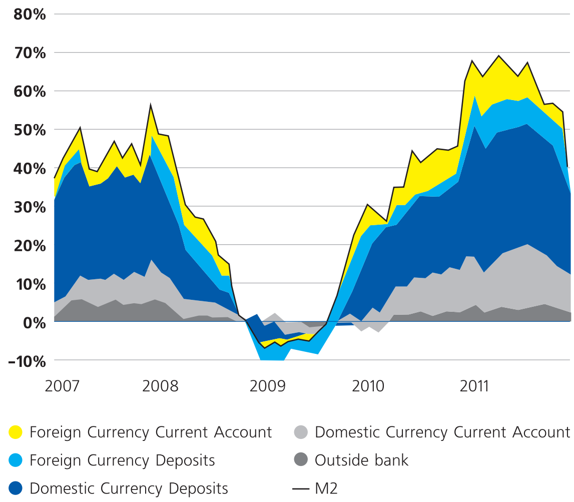


The Tugrik remains exposed to short-term volatility reflecting stochastic flows of trade and FDI. However, with the impending exponential growth in export volumes and value as our two major world scale mining projects, Oyu Tolgoi and Tavan Tolgoi, come on stream and transform Mongolia's terms of trade over the medium to long-term, the currency can be expected to strengthen materially in reflection of those sustained improvements in the trade balance. Foreign currency reserves actually increased by 8.7 per cent. year-on-year equivalent to USD 182.8 million to USD 2.27 billion providing cover of 18.2 weeks or 4.6 months of imports.

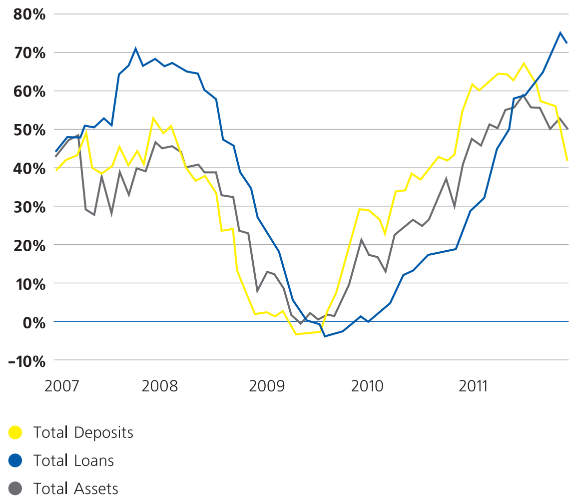
BANKING AND FINANCIAL MARKETS

The primary indicator of financial market development, the proportion of money, M2, to GDP, continued its expansion improving to 59.3 per cent. in 2011, from 55.6 per cent. in 2010 and 43.7 per cent. in 2009.

Growth in Money Supply (M2)



Growth in Banking Indicators



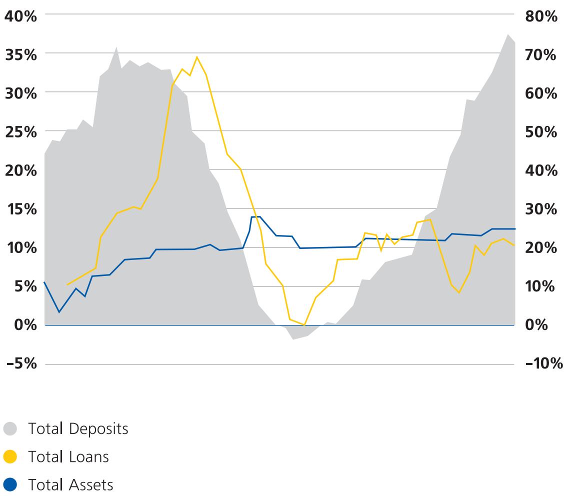
Mongolia's financial sector comprises of 14 commercial banks including 1 state-owned entity, over 200 Non-Bank Financial Institutions, 76 securities brokerage companies, and 17 insurance companies plus around 170 savings and credit cooperatives.

The market share of banks within the overall financial sector remains over 90 per cent.. Total assets of the banking system increased by 50.1 per cent. year-on-year to reach MNT 9.37 trillion (equivalent to USD 6.8 billion), whereas total deposits increased by 41.9 per cent. year-on-year to reach MNT 6.43 trillion (equivalent to USD 4.7 billion) and total loans outstanding increased by 72.8 per cent. year-on-year to MNT 5.64 trillion (equivalent to USD 4.1 billion). Due to the increasing demand for credit, banks purchases of Central Bank Bills decreased materially resulting in a fall of MNT 879.8 billion at year end from the high level of MNT 1,330 billion in February, 2011. Accordingly, liquidity within the banking system subsided to 36.8 per cent. in 2011 from 48.1 per cent. in 2010. In contrast the loans to total deposit ratio rose to a high level of 83.4 per cent. in 2011 from 66.6 per cent. in 2010.

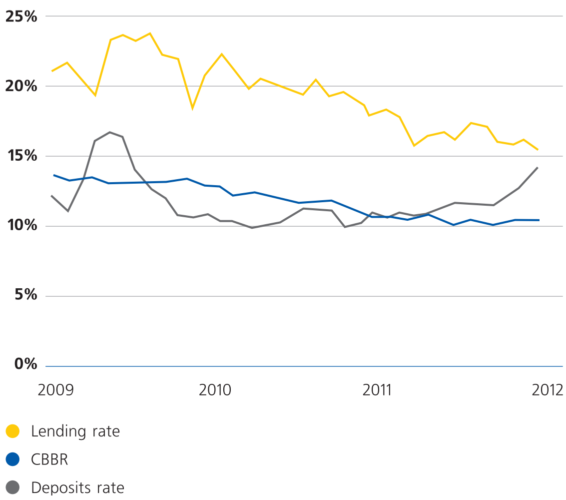
Non-performing loans ("NPLs") as a percentage of the total loans in the banking system declined to 2.9 per cent. at the end of 2011 compared to the level of 6.5 per cent. at the end 2010. Reflecting the combination of maintenance of lower levels of aggregate liquidity higher loans to deposits ratios and declining levels of the NPLs system profitability increased from MNT 65.8 billion in 2010 to MNT 184.3 billion in 2011.

Although The Bank of Mongolia has tightened its monetary policy in an attempt to reduce inflation and constrain growth in credit both metrics remain at stubbornly high sub-optimum levels.

Policy Rate Response



Interest Rates



Throughout 2011 the average lending rate of the banking sector was 15.5 per cent. for the Tugrik while deposit rates averaged 10.5 per cent.. The corresponding figures for foreign currency lending and deposits (primary denominated in United States dollars) were 12.1 per cent. and 4.5 per cent. respectively. In consequence the net interest margin for the system fell quite sharply to 5 per cent. in 2011 from the level of 7.2 per cent. in 2010.

ORGANIZATIONAL DEVELOPMENT

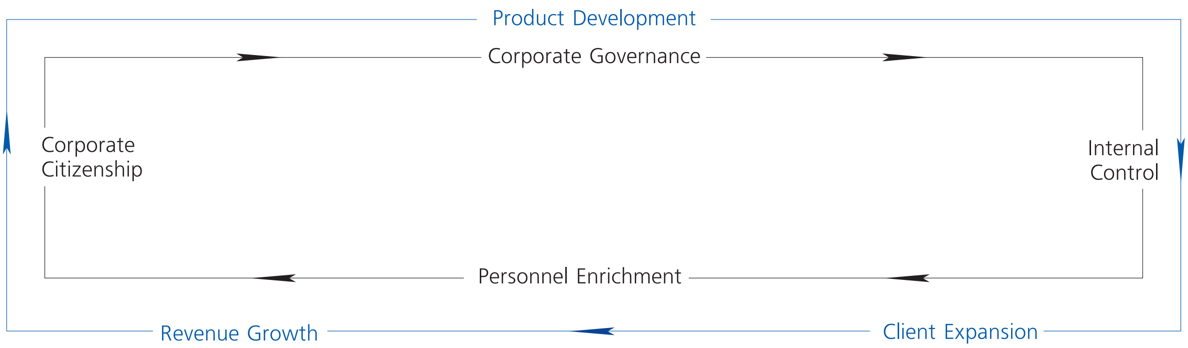
VISION AND MISSION

Vision

Golomt Bank's vision is to be the banking and financial sector leader in Mongolia respected for our professionalism, integrity, ethical and intrinsic strengths while operating at the highest levels of international and best industry standards.

Mission

To be the leading, professional bank in Mongolia with high level of operating efficiency and advanced social responsibility, committed to providing the full range of banking and financial products to all our valued customers with the highest possible level of service standards.



CORPORATE GOVERNANCE

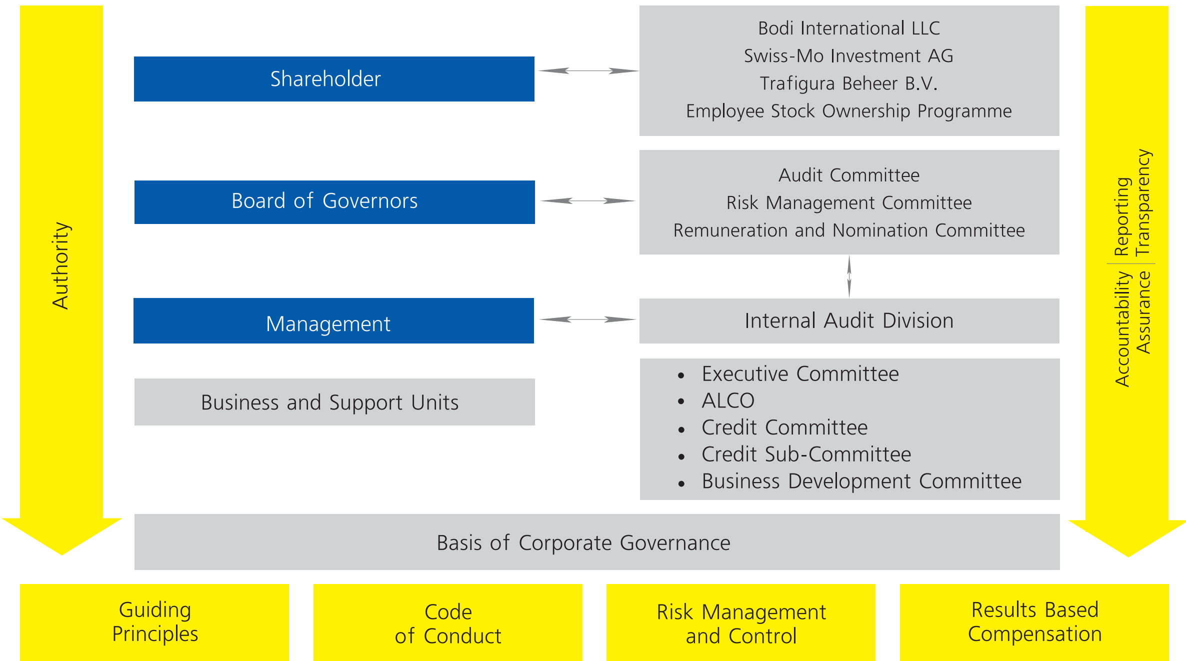
As the country's leading bank, Golomt Bank has always aspired to the highest standards of sound corporate governance, total transparency and full adherence to International Financial Reporting Standards. Consequently, the Bank is committed to integrating the best practices in corporate governance into the Bank's culture and conduct.

To support our corporate governance structure, we maintain a system of internal checks and balances through Audit, Risk and Remuneration and Nomination Committees of the Board. Our management maintains independent operational control free from any undue influence on the part of either our majority shareholder or any other party. In increasing the membership of the Board of Governors to six members in 2011, the Bank continues to set the highest standards of corporate governance in total compliance with the requirements of both the Banking Law 2010 and best international practice.

Following the introduction of the Company Law 2011, the Bank further enhanced its Charter and established an additional Committee of the Board, the Remuneration and Nomination Committee, which is responsible for vetting and nominating prospective members of the Board of Governors, and senior management as well as addressing all aspects of their remuneration and compensation while prudently evaluating their performance and results.

That separation of ownership and management is further preserved by the presence of independent and non-executive members upon the Board of Governors.

Corporate Governance Structure



Shareholdings

	31/12/2011	31/03/2012
Bodi Group	89.19%	84.71%
Swiss-MO Investment AG	10.70%	10.16%
ESOP	0.10%	0.09%
Trafigura Beheer B.V.	-	5.02%
Total	**100%**	**100%**

Swiss-MO Investment AG became the Bank's second Shareholder beyond our founder Shareholder, Bodi International LLC through their direct equity investment in June 2011. Subsequent to the closing of the 2011 financial accounts in March 2012 we welcomed an additional new shareholder, Trafigura Beheer B.V.. Trafigura is the world's third largest oil trader and the second largest independent trader in the non-ferrous concentrates market.

BODI INTERNATIONAL LLC

Bodi International LLC is the holding company of the Bodi Group, one of the leading business conglomerates in Mongolia with active operations in seven diverse business sectors including banking and finance, real estate and property development, agriculture, trade and services, information technology plus media, and entertainment. Since its establishment in 1993, the Bodi Group has always strived to expand its close cooperation with international business partners in order to introduce state-of-the-art technologies and management practices within Mongolia.

At the end of 2011 the Bodi Group owned 89.19 per cent. of the equity of the Bank, subsequently reduced to 84.71 per cent. by the end of the first quarter of 2012 following the further admission of Trafigura Beheer B.V. as a Shareholder.

The Bodi Group is one of the largest corporate taxpayers in the country and adheres to the highest values of business ethics and corporate social responsibility principles promoting and supporting various philanthropic activities which benefit

Mongolian society as a whole. The Group respects the needs and interests of all its stakeholders including its employees, customers, and business partners by operating in a highly ethical business environment.

The Bodi Group is playing an important role in the construction and development of the Oyu Tolgoi mining project, one of the world's largest copper, gold and silver deposits. The Group implements various projects for Oyu Tolgoi including the construction of the core concentrator plant and the supply and construction of power transmission lines.

In line with the country's efforts to develop its agricultural sector, Bodi Group has the largest and most advanced irrigation system to cultivate fertile land in the Eastern Region. In 2011, the Group harvested the largest amount of wheat in the region enabling local flour producers to secure a constant supply of the highest quality wheat.

Bodi Group's Financial Performance

Bodi Group produces its financial statements audited by the independent auditing firm, KPMG Samjong in accordance with International Financial Reporting Standards.

Key Highlights

USD (000 equivalents)	2010	2011
Total Assets	1,349,029	1,648,902
Owners' Equity	104,701	157,781
Revenue	124,225	167,018
Operating Profits	22,292	32,303
Net Profit after Taxation	21,475	24,886

BOARD OF GOVERNORS

The Board of Governors provides overall strategic direction and oversight to the Bank, reviewing and approving all credit, risk, and investment policies. The Board of Governors approves the annual budget, business plans and major items of capital expenditure. During both their regular and sporadic meetings, the Board of Governors review, monitor and track achievements against the Bank's budget strategy and directs amendments wherever deemed appropriate. The Board of Governors has responsibility to direct and ensure the implementation of a framework of control covering Financial Control, Internal Audit, Compliance and overall Risk Management.

The Board of Governors consists of six members with extensive experience in banking, finance and commerce. In 2011, the Board of Governors was expanded with the admission of Mr. Urs E. Schwarzenbach representing the interests of our new Shareholder, Swiss-MO Investment AG. He is a renowned Swiss financier, entrepreneur and philanthropist who also serves as the Honorary Consul of Mongolia to Switzerland.

Audit Committee

The Audit Committee is appointed by the Board of Governors and reports directly to the Board in order to review the Bank's financial position and to make recommendations on all financial matters including assessing the integrity and effectiveness of accounting methods, compliance and other control systems. In accordance with the provisions of the Banking Act 2010 the Audit Committee exercises independent oversight and control over the Internal Audit Division of the Bank and management of the relationship with the External Auditors, Ernst & Young Mongolia LLC.

The Internal Audit Division is structured completely independently of the Bank's executive management in accordance with the Banking Law 2010. Through the Audit Committee the Board of Governors is responsible for all aspects of the Internal Audit Division's structure, budget, policies, management and employees as well as their compensation and terms and conditions of service.

Back row, from left: J.Unenbat, Urs E. Schwarzenbach, D.Bayasgalan and Mark N.Cutis
Front row, from left: M.Zorigt and L.Boldkhuyag

Risk Management Committee

The Risk Management Committee is appointed by the Board of Governors and reports directly to the Board in order to review the Bank's overall risk exposures and to make appropriate recommendations upon the measurement, quantification, limitation and amelioration of all the diverse elements of risk encountered in the operations and business of the Bank.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is appointed by the Board of Governors to ensure that there is a formal and transparent procedure for developing policies on Board membership and benefits coupled with executive and employee remuneration and nomination issues. The Remuneration and Nomination Committee is comprised of three non-executive members responsible for reviewing and recommending to the Board of Governors the appointment of new directors and senior management as well as all aspects of their remuneration and compensation packages.

ORGANIZATION STRUCTURE

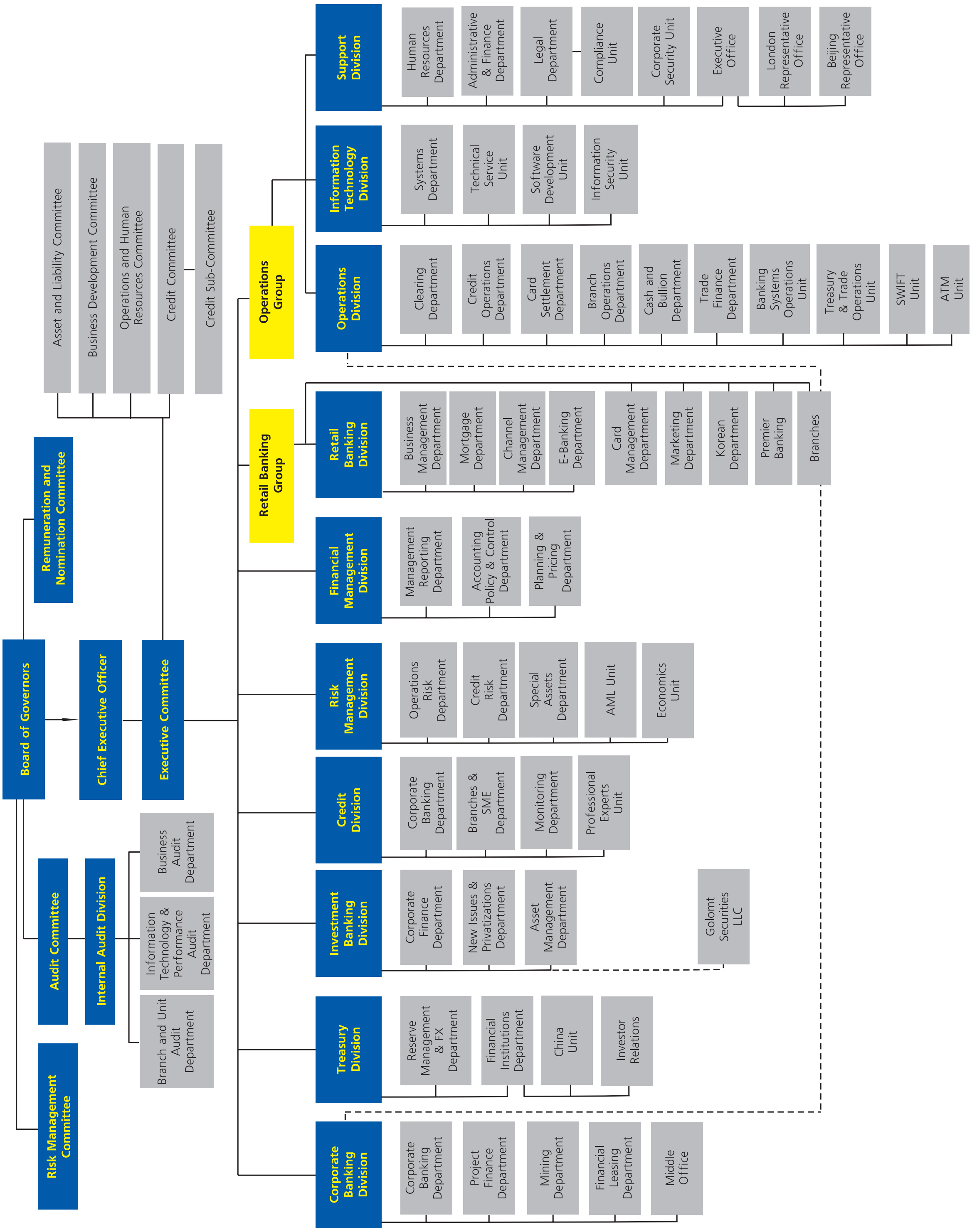
Reflecting the Bank's fundamental objective of remaining a customer-centric organization our organization structure is constantly being refined in order best to address the evolving demands and challenges of our expanding business volumes and mix.

As part of this ongoing process of improvement and to reflect a number of changes introduced by the Company Law 2011, the following important structural enhancements were introduced during the year

- upgrading the former Credit Risk Department to Divisional status with four units (Corporate Banking Department, Branches and SME Department, Monitoring Department and Professional Experts Unit) in order to further strengthen the control and review process embracing the sanction, extension and monitoring of all credit facilities
- establishing a new Economics Unit within the Risk Management Division in order to better define the risks arising from evolving market conditions; domestic, regional and international

- enhancing the operations of the Financial Institutions Department under Treasury Division by adding both China and Investor Relations Units in order better to focus on those twin relationships of growing importance
- establishing a Trade Finance Department within the Operations Division in order to better facilitate both execution and monitoring of our growing volume of trade finance facilities.

Organization Structure



MANAGEMENT TEAM

As is reflected in both financial and operational results, the Bank has a highly professional and experienced management team, some having served since its inception and the majority since the early years. The Organization Structure chart reflects the composition of the management team with the Chief Executive Officer, Executive Vice President and Chief Operating Officer and Executive Vice President and Director of Retail Banking Group supported by Vice Presidents, Directors of Divisions and Departmental Heads.

D.Munkhtur
Executive Vice President & Chief Operating Officer

G.Ganbold
Executive Vice President & Director of Retail Banking Group

M.Chimegmunkh
Vice President & Director of Financial Management Division

L.Oyun-Erdene
Vice President & Director of Corporate Banking Division

M.Chingun
Vice President & Director of Risk Management Division

J.Ganbat
Director of Internal Audit Division

B.Zagal
Vice President & Director of Investment Banking Division

B.Enkhtuya
Vice President & Director of Retail Banking Division

B.Munkhbaatar
Director of Treasury Division

T.Nyamsuren
Director of Credit Division

Yo.Purevbat
Director of Operations Division

B.Tuvshinzaya
Director of Financial Institutions

Board of Governors	**D.Bayasgalan**	Chairman
	L.Boldkhuyag	
	M.Zorigt	
	J.Unenbat	
	Mark N. Cutis	
	Urs E. Schwarzenbach	
	B.Tuvshinzaya	Secretary
Audit Committee	**O.Ganjoloo**	C.P.A. Chairman
	J.Unenbat	
	Mark N. Cutis	
	Urs E. Schwarzenbach	
	B.Tamir	
	B.Shinejargal	C.P.A. Secretary
Risk Management Committee	**L.Boldkhuyag**	Chairman
	M.Zorigt	
	Urs E. Schwarzenbach	
	John P. Finigan	
	M.Chimegmunkh	
	M.Chingun	Secretary
Remuneration and Nomination Committee	**D.Bayasgalan**	
	M.Zorigt	
	J.Unenbat	
	Z.Solongo	Secretary
Senior Management	**John P. Finigan**	Chief Executive Officer
	D.Munkhtur	EVP, Chief Operating Officer
	G.Ganbold	EVP, Director of Retail Banking Group
	M.Chimegmunkh	VP & Director of Financial Management Division
	L.Oyun-Erdene	VP & Director of Corporate Banking Division
	M.Chingun	VP & Director of Risk Management Division
	B.Zagal	VP & Director of Investment Banking Division
	B.Enkhtuya	VP & Director of Retail Banking Division
	J.Ganbat	Director of Internal Audit Division
	B.Munkhbaatar	Director of Treasury Division
	T.Nyamsuren	Director of Credit Division
	Yo.Purevbat	Director of Operations Division
	N.Tserendavaa	Director of Information Technology Division
	B.Tuvshinzaya	Director of Financial Institutions
	Z.Khaidar	Director of Card Management Center

HUMAN RESOURCES

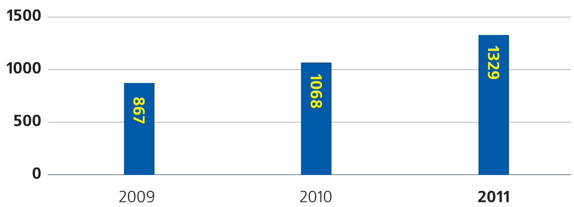
The dedication, professionalism, skills and expertise of our people are all critical factors determining our success. We continue to attract, develop and retain the brightest and best employees by offering progressive working conditions, an integrated reward policy, wide-ranging development opportunities and attractive career prospects.

Recruiting Talent

Effectively managing the Bank's human capital recruitment remained a top priority in 2011, in line with the Bank's expansion strategy. The Bank actively pursues hiring the "best fit" according to business needs while respecting our organizational values through professional human resource planning, using proven assessment methodology to ensure efficient processing thereby establishing and maintaining a strong corporate culture and retaining our long-established reputation as the most desired domestic employer within Mongolia.

During the year, the Bank launched and successfully implemented a "Success Starts with the Right Job!" recruitment campaign targeted upon experienced professionals in the banking and finance sector as well as younger graduates with leadership potential. As a result the Bank welcomed more than 200 new employees to become our family members.

Number of Employees



At the end of the year the Bank had 1,329 employees, of which 61 per cent. serve in front line delivery positions throughout our 88 branches. The other 39 per cent. are assigned to the Head Office and support functions.

Human Resource Indicators

	2010	2011
Number of employees	**1,068**	**1,329**
Branch offices	651	809
Head office	417	520
Gender Ratio (Male/Female)	**30/70**	**30/70**
Branch offices	21/79	25/75
Head office	40/60	32/68
Middle management	45/55	46/54
Senior management	70/30	75/25
Average age of employees	**26.7**	**26.9**
Professional Qualifications		
Vocational training	10%	10%
Bachelor /Mongolian Universities/	72%	73.4%
Master /Mongolian Universities/	13%	11.5%
Bachelor /International Universities/	3%	3.6%
Master /International Universities/	1%	1.5%

The Bank has implemented a broad ranging job rotation programme among front-line and operations staff in order to increase professional skills, productivity and job satisfaction for employees at all levels.

Enhancing Leadership

The Bank has created an environment that challenges employees, thereby developing and supporting their professional and personal skills supplemented by our ongoing career development training and planning modules to best equip all qualified employees to assume positions of increased seniority and responsibility.

In 2011, the Bank successfully implemented the "Best Manager" Programme to develop and hone the leadership skills of mid-level managers who are ready for accelerated development. This programme included team and individual based contests, and leadership skills training together with coaching and mentoring sessions.

The Bank's culture of mentoring and coaching is designed to support, guide and help our employees optimise their professional, managerial and leadership skills. Dedicated coaches conduct training sessions for newly appointed managers and mentors have also been assigned to employees at all levels across the Bank.

The Bank's Career Development programme embraces career development and succession planning designed to provide an internal pipeline of candidates ready to assume future leadership roles. To achieve this goal, the Bank has also implemented a "Certified Manager" programme to identify and develop future branch managers, selected on a merit basis reflecting both prior contribution and achievements augmented by in-depth reviews and evaluations. Participants in the "Certified Manager" programme engaged in management and sales skills training, supplemented by experimental development activities embracing special projects and assignments.

Rewarding and Retaining Employees

In order to reward and retain its employees, the Bank implements the Total Reward Programme to ensure a happy and dedicated work force committed to delivering the highest possible service standards:

- First Pension Fund: As an incentive to motivate long serving employees and provide financial security for our employees after retirement, the Bank has established the first Private Pension Fund in Mongolia. The number of First Pension Fund members increased by 174 and investment in the First Pension Fund by the Bank increased by MNT 194.7 million at the end of December 2011;
- Employee Stock Ownership Programme: The Bank has developed an innovative Employee Stock Ownership Programme whereby long serving employees enjoy the benefit of options to acquire shares in the Bank. At the end of 2011, 41 employees had availed themselves of the option to become Shareholders;
- Employees' Medical Benefits: The Bank places great emphasis upon the health of all our employees so we have selected one of the most prestigious hospitals in Ulaanbaatar, Song-do to annual medical assessments for all our head office as well as branch office employees;
- Introduced an enhanced compensation structure to create a more performance based compensation policy.

Training and Development

We believe that our people are our most valuable resource and to that end we continuously devise and implement diverse professional development and training programs to augment the professional expertise of employees at all levels of seniority.

Training Indicators

	2009		2010		2011	
Training expense /MNT/	144,940,942		190,555,054		315,800,659	
Training statistics	Training participants	Training hours	Training participants	Training hours	Training participants	Training hours
Overseas training	20	1,120	24	1,176	34	1,512
Internal training	1,518	15,410	2,055	39,403	2,573	30,392
External training	581	5,328	516	5,544	624	8,632
Total	**2,119**	**21,858**	**2,595**	**46,123**	**3,231**	**40,536**

- As depicted in the above table, a total of 239 programmes were organized embracing a total of over 40,000 man hours attended by 3,231 participants with an average duration of 38 hours per employee;
- We conducted a new orientation programme built upon the theme of "Golomt's Culture is Golomt's Pride" for 178 newly hired employees as a precursor to their mentorship programme in order to develop their professional expertise and familiarize them with the Bank's culture and policies and procedures to enable them to assimilate seamlessly into their new assignments;
- We increased the number of international training programmes by 31 across 17 countries in Asia, Europe, North America and the Middle East;
- We improved the timelines and contents of development and professional training modules for branch managers, relationship managers, customer interfacing staff and other specialist professionals to enable them to better serve our customers while fulfilling their personal career development aspirations.

INFRASTRUCTURE

Information technology remains very much the driver of the Bank's operating efficiency. To ensure the integrity and efficacy of our systems and their security and control we engaged Deloitte & Touche Enterprise Risk Services to conduct a comprehensive pan-bank IT security review which generated a number of valuable recommendations which have already been fully implemented.

To facilitate the continued exponential growth of the volume of transactions of ever increasing complexity and to remain the most efficient and lowest cost producer we continued our progressive upgrading of the core banking system and server technology.

Reinforcing our pioneering status in Internet Banking where we offer the widest suite of electronic banking services in Mongolia, we further strengthened our integrated online system management based on enhanced digital technology as well as upgrading our Call Center installing new "state-of-the-art" programme software and server systems.

BUSINESS REVIEW

RETAIL BANKING

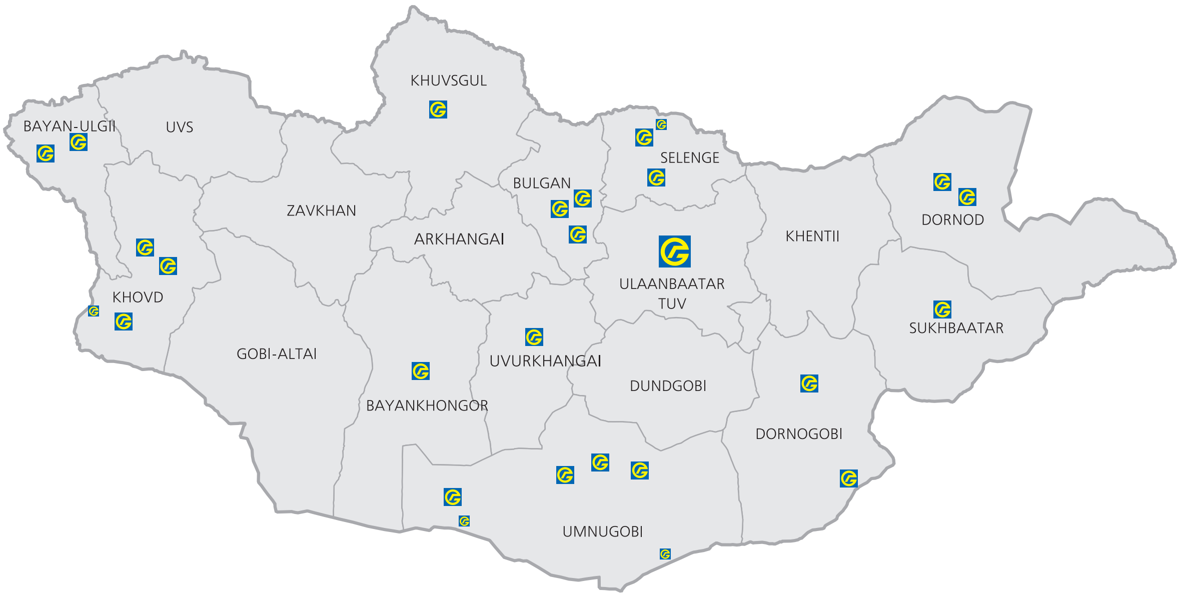
Retail Banking plays a critical role providing the foundation for the Bank's stable growth. Accordingly the Bank has been capturing increasing volumes of retail banking business which now account for 43 per cent. of the risk asset portfolio. In this and other ways the Bank continues to play a vital role in supporting the rapid development of the Mongolian economy embracing rapid expansion of the number of Small and Medium Enterprises (SMEs) and the gradual emergence of a growing middle class populace as the country achieves middle income status.

The emphasis within Retail Banking is on delivering the highest standards of service and widest range of quality financial services through progressive expansion of both our physical branch and E-Banking service network. We are acutely focused upon enhancing our E-banking services, and delivery channels in order to enhance our speed and responsiveness. We continue to upgrade our branches to focus upon higher value more complex financial services while consolidating our long-standing dominant position in card services throughout Mongolia. In both ways this contributes materially to the aspirations of the National Payments Council to increase the volumes of e-commerce and reduce the currently excessive use of cash transactions within the payments system.

Expansion of branch network and service outreach

With the strategy of progressively expanding the branch network into areas with high population density and solid prospects for sustained growth at the heart of Mongolia's future economic development, the Bank has continued to grow our physical branch network by opening 18 new branches of which 7 are located in Ulaanbaatar with 11 new offices in Uvurkhangai, Sukhbaatar, Umnugobi, Khovd and Dornogobi Aimags (provinces). Total number of branch offices has reached to 88 comprising 51 in Ulaanbaatar and 37 offices spread across 12 of our nation's 21 Aimags.

In order to provide the widest range of financial services to companies, suppliers, entrepreneurs and employees engaged in the mining sector and serve them in a more efficient manner, the Bank constructed an impressive new building to accommodate our operations at Oyu Tolgoi, Mongolia's new flagship copper, gold and silver mine, and opened new offices at the Gashuun Sukhait border post in Umnu Gobi Aimag and at the Yarant border post in Khovd Aimag.



In addition to our physical branch network our unrivalled range of tailor-made banking products and financial services is increasingly accessed and delivered through alternative E-Banking channels including the complete range of ATMs, Internet banking, mobile and SMS banking as well as the country's largest network of POS terminals. We were pleased to pioneer the launch of Mobile ATM services in Mongolia, while increasing our static ATM network to 132. The Bank continued its dominance in card payment transactions within the Mongolian banking system processing over 60 per cent. of the total volume. In 2011, the number of Golomt Bank's card merchants increased by 44 per cent., thus the Bank retained its leading position as the card service provider with the widest network of card merchants and the widest acceptance of international brand cards in Mongolia. The total volume of transaction through Golomt Bank's card merchants increased by 82 per cent., while transaction volumes for cards issued by international banks through Golomt Bank's card merchants' network increased by 59 per cent..

Internet Banking transaction volumes increased by 101 per cent., while interbank transaction volumes through Internet Banking grew by 64 per cent.. The Bank also expanded the support service functions of our proprietary "Easy Info" SMS notification and SMS banking service. As a direct result of these service enhancements during the course of the year the number of E-banking clients increased dramatically:

- growth in number of active internet banking clients - 103 per cent.
- growth in number of online account holders - 260 per cent.
- growth in number of customers utilizing our "Easy Info" SMS notification service - 260 per cent.
- growth in number of mobile banking clients - 139 per cent..

To enhance our competitive advantage in the core retail banking sector, we continued to introduce new products specifically tailored to meet the ever expanding needs of our valued customers:

- mobile banking applications for Blackberry, iPhone and Android smart phones
- new "Easy Start" mortgage loan facilities for young families
- new Private house mortgage programmes
- renewed Certificate of Deposit (CD) products
- new deposit products named "Goal Achievement" specifically designed to assist our clients to achieve certain life-style goals.

SME Banking

The rapidly expanding SME sector is a critical constituent of the economic and social development of Mongolia. SME's are fulfilling an essential role in providing support services to industry and the population at large thereby creating jobs and generating income, while fostering economic growth, social stability, and contributing to the development of a dynamic private sector. Accordingly, a key element of the Bank's overall growth strategy is to broaden the range, scope and volume of our SME business as this sector expands in tandem with the rate of growth of the Mongolian economy. In 2011, our total SME loans rose by MNT 86.3 billion (75 per cent.) to reach MNT 201.9 billion, constituting 16 per cent. of our total loan portfolio.

In order to offer a one-stop banking solution to SMEs and improve the cross-sale of banking services to this key customer segment, the Bank developed a new hub-branch business model and established our first dedicated "Business Center", to provide a comprehensive range of banking services for entrepreneurs, by addressing their business and personal financial requirements simultaneously. This hub-branch business model will make branch offices more efficient reflecting changes in staffing and sales models, focused on deepening customer relationships through a needs based sales and services process.

In addition the Bank continues to offer its comprehensive training, consulting and business incubator services specifically designed for SME clients across many of the Aimags in which we operate.

The Bank participated in a wide variety of Project Loan Programmes in cooperating with Government Agencies and international organizations in order to support the growth of business in the SME sector:

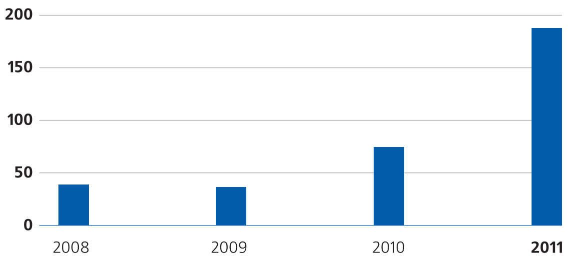
- dominated participation in the Project Loan Programme for "Cashmere and Wool" and "SME development" disbursing a total of MNT 29,3 billion of such concessionary loans
- renewed our agreement to issue SME Development Fund Project Loans under the auspices of the Ministry of Food, Agriculture and Light Industry and the Investment Development Fund while extending the programme a country wide basis
- selected by the Japanese Bank of International Cooperation and Ministry of Finance as the Participating Financial Institution for the 2nd phase of the "Two Step Loan Project for SME Development and Environmental Protection".

According to the auditing process conducted by five respected national auditing authorities (National Audit Office, State Monitoring Office, SME Development Fund Monitoring Team, the Central Bank Audit Team and Ernst & Young Mongolia Audit LLC), the Bank received the highest score of 95 per cent. among all commercial banks as a result of its successful implementation of SME Development Project Loan Programme.

Mortgage Loans

In the fulfillment of our objective of contributing to the process of urban development while improving the environment and creating ownership of property, the Bank offers the most convenient range of mortgage loan products designed to suit the needs of all credit-worthy homeowner borrowers within affordable income and debt service parameters.

Mortgage Loans (MNT billion)



Mortgage loans increased by 140 per cent. (MNT 112.5 billion) to reach MNT 192.6 billion by the year end and created property ownership opportunities for 4,090 families, reflecting a 105 per cent. increase above the end 2010 level. In order to support the needs of young families the Bank launched an easy start mortgage loan product to facilitate their initial entry into property ownership.

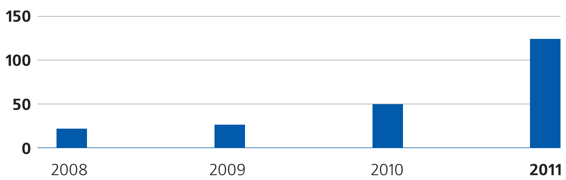
The Bank actively supports the key employees of its valued corporate clients by offering tailored mortgage loans to suit their requirements with 43 per cent. of total mortgage loans being extended to long serving professional employees of our valued corporate clients.

The Bank also liaises effectively with leading national companies constructing new apartments and houses in order to provide an opportunity for Mongolian citizens to buy high quality family residences thereby increasing property ownership and creating the capital stock for inter-generational asset transfers.

Consumer Loans

As a result of the rapid economic development and growth throughout the economy, there are an increasing number of middle-income earners. Middle class consumers enjoy rising purchasing power resulting in increasing demand for tangible assets such as vehicles, white goods, electronic appliances and educational services. The Bank continuously revises and enhances its loan products to accommodate evolving demand while always remaining within prudent sustainable limits upon capacity through a differentiated range of consumer credit facilities.

Consumer Loans (MNT billion)



Consumer loans increased by MNT 60.4 billion to MNT 126.6 billion, an increase of 91 per cent. compared with MNT 66.2 billion at the end of 2010. The Bank is cooperating with over 270 retail organizations and companies in order to offer specific consumer finance facilities for the purchase of a wide range of capital goods such as furniture and vehicles thereby acting as an effective intermediary bridging the gap between suppliers and customers.

The Bank introduced a new saving product named "Goal Achievement", which offers flexible terms and conditions to help customers reach their goal to purchase capital goods by saving a certain amount of money every month. The Bank pays particular attention on enhancing our valued customers' product knowledge and understanding of financial terms and conditions, and organizes regular training and seminar sessions aiming to provide comprehensive information about our products and services to existing and prospective customers so as to identify their specific needs and suggest suitable product solutions which best meet those particular aspirations.

CORPORATE BANKING

The Corporate Banking Division enjoyed another year of successful operations reflective of the trust which our customers place with the majority of all leading corporate enterprises constituting our loyal customer base. The Corporate Banking Division is committed to being a single-point provider of comprehensive and customized financial solutions for domestic, and international business entities through our strong relationship team. We offer the complete range of banking products and services including current accounts, deposits, loans, trade finance services, cash management, foreign exchange, financial leasing, co-financing, project financing, together with import and export credit finance.

In collaboration with a number of leading international banks we introduced an important new initiative to the Mongolian market in the form of long-term export credit financing under the auspices of leading Export Credit Agencies (ECAs) to support trade and investment flows into Mongolia from European Union and other OECD member countries. Importers thus benefit from long-term financing at attractive fixed interest rates lower than those prevailing in the domestic market. The Bank is now able to extend such finance to its customers in cooperation with world renown international banks and financial institutions such as Credit Suisse, BHF Bank, Deutsche Bank, Czech Export Bank, Commerzbank, Sumitomo Mitsui Banking Cooperation, and Komercni Banka of the Czech Republic.

Our Corporate Banking services embrace the full range of financial products to support developments in the trading, retailing, infrastructure, construction, property, water and irrigation, transport, highways and roads, mining and energy sectors as well as public and private sector concession projects under the auspices of the Government of Mongolia. The following are examples of these activities during 2011:

- supporting the construction project of 20,000 residential apartments in Ulaanbaatar
- acting as local financial advisory bank for Erdenes-Tavan Tolgoi
- engaged in the prospective provision of working capital facilities to Oyu Tolgoi LLC
- provided pre-delivery credit facility to MIAT Mongolian Airlines (our national carrier) for the purchase of a new build Boeing B767-300ER in advance of long-term finance from U.S EXIM Bank
- providing exclusive clearing bank services to IATA under their industry wide Billing and Settlement Plan (BSP).

Furthermore as Government revenues increase and are in turn reflected in a growing volume of public sector capital expenditures, we continue to broaden and deepen the financial relationship with individual Ministries and public sector agencies through:

- cooperation agreements with the General Custom's office and Vehicles inspection agency of Mongolia
- exclusive cooperation with the Ministry of Road Transportation, Construction and Urban Development to support road construction companies as our nation's highways undergo a process of dramatic expansion.

As an integral element of our support for local businesses, we continue to collaborate with international financial institutions such as Asian Development Bank and the World Bank. In this context we established a financing facility agreement with the Asian Development Bank to support agricultural and rural development projects focusing particularly value chain development, rural infrastructure and services development, and project management. In addition we succesfully implemented the Private Sector Development Credit Phase-2 Project for SMEs as well as a Technical Assistance Project with the World Bank.

Banking Services for the Mining Sector

As Mongolia's leading bank, our dedicated mining department provides the most comprehensive range of banking and financial services including transaction processing, corporate lending, structured-finance activities, trade finance, financial leasing, syndicated and co-financed transactions for our mining customers and their partners throughout every stage of the supply chain.

We are pleased to have been entrusted with the opportunity to be the primary domestic financial supporter of Erdenes MGL LLC the holding company for all of Mongolia's state owned mineral resources and provided the initial corporate lending to enable it to commence exports of coking coal to China through its world-scale mining subsidiary, Erdenes-Tavan Tolgoi.

We aim to focus on the efficient and speedy delivery of all our existing banking services to all companies operating in the mining sector as well as their employees while consistently initiating new tailored services that better meet the financial needs of our customers through our branches located conveniently at the most prominent mining sites in Mongolia.

INVESTMENT BANKING

The principal activities of Investment Banking Division constitute structuring, sourcing, negotiating and closing debt and equity financings as well as the provision of incisive advisory services for private and public companies as well as institutions and public sector agencies engaged in our rapidly developing economy.

Our vision is to fuel the profitable growth of our valued clients by providing the highest-quality investment banking services, and in doing so create an environment which will lead to long term, mutually beneficial relationships. We strive to achieve these lasting relationships by matching each client assignment with the collaborative expertise of the Bank's team of seasoned banking and investment professionals.

Through attentive understanding of each client's business and strategic objectives, we are able to focus on their particular needs, effectively develop financing strategies, efficiently achieve their goals and manage each transaction process rapidly, through to successful closure.

Our embryonic Investment Banking Division team is progressively building upon its expertise and competencies with a view to offering the full range of investment banking services within Mongolia entailing :

- structuring debt, equity and equity related instruments, refinancing existing debt, working capital and *mezzanine* finance;
- horizontal and vertical expansion into new markets, and organic growth within a company's existing business profile and footprint;
- identifying and sourcing prospective investors;
- negotiating financing terms with investors;
- facilitating due diligence processes;
- preparing and presenting offering memoranda and prospectuses;
- facilitating the creation and development of joint ventures;
- drafting and executing documentation;
- providing corporate valuations.

Our Investment Banking Division assists its clients in securing debt and equity capital to finance a broad range of requirements including corporate expansion, acquisitions and green-field projects. Over the years the Bank has developed extremely close relationships with many financing sources and maintains active relationships with diverse overseas institutional investors including major private equity institutions, venture capital and mezzanine funds, regional and money-center commercial banks, insurance companies,and sovereign wealth funds in addition to our long-standing relationships with our valued financial partners. These relationships give the Bank unrivalled access to international placing power and capital ranging from equity and equity linked instruments to subordinated debt and bridge financing. Our knowledge of their investment criteria and processes enables us expeditiously to present multiple financing options and structure flexible financial packages consistent with market conditions, and optimized to our client's objectives as relating to amount, tenor, conditionality and all-in-cost.

The Bank has been granted both a securities underwriting license and a securities custodianship license under its own name while in order to comply with the domestic financial regulations which require the segregation of certain investment activities, we have established our first wholly-owned subsidiary, Golomt Securities LLC, in order to provide dedicated brokerage services to our clients active in both the domestic and major international securities markets. Golomt Securities LLC provides timely and efficient execution of domestic and global securities transactions while concurrently providing insightful information based on our proprietary research and analysis.

Golomt Securities LLC has a physical seat on the Mongolian Stock Exchange as well as efficient access to major international securities exchanges and over-the-counter markets through our long standing and unrivalled range of correspondent banking relationships.

FINANCIAL INSTITUTIONS & TRADE FINANCE

We enjoy a wide range of correspondent banking relationships with many of the world's leading banks. In the past two years, we have established new correspondent relationships with major international banks including Bank of China, Construction Bank of China, Citigroup, CIBC, Wells Fargo, Intesa Sanpaolo, ING Bank, ANZ, Barclays, Kazkommertsbank, Agricultural Bank of Russia, and VTB Bank in order to meet the settlement requirements of our customers in various currencies. In addition to conventional interbank electronic transfers through SWIFT, we also offer payment transmission services (on a two-way basis into and out of Mongolia) through Western Union, one of the world's most widely used and renown money transfer companies with operations in more than 200 countries.

We have established important strategic relationships with leading international banks through our correspondent bank affiliations and our two convertible loans with Credit Suisse and Abu Dhabi Investment Council through Stanhope Investments. These affiliations have allowed us to strengthen our capital base and lending capacity, increase our liquidity and helped us to adopt international best practices in risk management, operations and corporate governance.

The Bank's volume of international payment transactions generated an increase of 28.4 per cent. in 2011 with incoming and outgoing payment transactions increasing by 12.1 and 37.5 per cent. respectively, while we continue to broaden the range of correspondent banking relationships which we enjoy with the leading regional and international money centre banks.

Our extensive experience in foreign exchange and remittances, together with our effective correspondent banking network and reputation for robust financial management, places us in an advantageous position to attract foreign customers seeking a deposit-taking financial institution in Mongolia. Supported by our strong correspondent banking relations we offer comprehensive, professional trade financing solutions to match individual client needs, which facilitate cash flow management and reduce risks associated with foreign trade. Our trade finance services include import and export letters of credit (which achieved volume growth of 72 per cent. over the year) stand-by letters of credit, letters of guarantee, documentary collections, advisory services and related payment and foreign exchange transactions conducted through our wide range of leading global correspondent banks. In addition, we provide currency exchange services and forward currency contracts for our corporate customers.

TREASURY

The Treasury division manages the bank's liquidity, money market activities, foreign currency exchange operations and reserve management position and, has continuously maintained the highest level of liquidity of all leading banks throughout 2011.

Treasury and Liquidity Management

The Treasury Division manages our liquidity needs and surplus cash flow on a day-to-day basis, principally through placing foreign currency deposits with leading international correspondent banks and transactions in government securities and other investment securities, combined with repurchase and reverse repurchase transactions in respect of Mongolian government bonds. In entering into any such transaction, the Treasury Division observes counterparty exposure limits set by the Risk Management Committee. The Treasury Division also utilises interest rate and currency derivative transactions for hedging purposes. We do not engage in derivative transactions for speculative purposes.

The Treasury Division manages credit, currency, interest rate and other risks inherent in managing excess liquidity by investing in a select range of instruments to manage concentration in sectors, markets, instruments, currencies, maturities or individual institutions. The principal objective of our Treasury operations is efficient management of our liquidity, interest rate and market risk, thus managing foreign currency exposure and reducing funding costs. The Treasury Division calculates our cash position on a daily basis and provides management with daily reports on our liquidity and cash flow position. The Treasury deploys our surplus Tugrik liquidity into Central Bank bills with our portfolio comprising over 20 per cent. of the total bills in issue as at the year end. In similar fashion the Bank has played a key role in the innovative auctions of Mongolian Government domestic Bonds holding at the year end 22.8 per cent. of the total in issue.

Foreign Exchange

In 2011 the Tugrik value fluctuated against the dollar by 16.82 per cent., appreciating to 1195.27 in March before falling back to the Central Bank official year end level of 1396.37 as a reflection of deteriorating terms of trade and renewed inflationary concern. As the leading market-maker in the domestic foreign exchange market the Bank continued to make a two-way market to our valued corporate and institutional clients notwithstanding the unforeseen underlying volatility while working steadily to create a deeper market through expanding the forward and swap markets in order to create more efficient hedging opportunities for importers, exporters and investment clients.

As part of our contribution to the overall development of our financial markets in conjunction with The Bank of Mongolia, the Bank co-organized the Fourth Foreign Currency Professionals Forum on an industry wide basis in order to address in depth the opportunities to broaden the range, scope and capacity of the domestic financial markets by expanding both interest rate and currency options and hedging opportunities for the benefit of all sectors of the economy thereby creating greater liquidity and price transparency.

FINANCIAL REVIEW AND CREDIT RATING

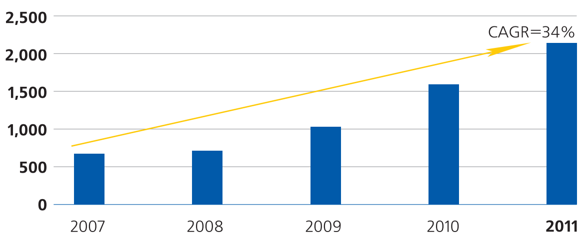
FINANCIAL REVIEW

In 2011 the Bank once again delivered another robust performance with balanced growth of around 40 per cent. across all key performance metrics while remaining the largest bank in terms of total customer deposits.

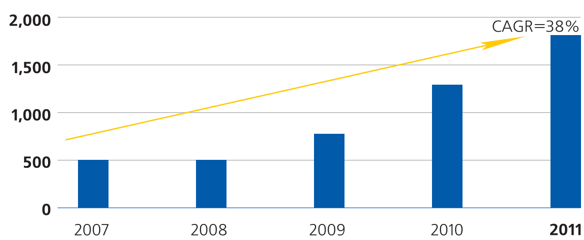
Among the more noteworthy achievements were:

- total assets increased by MNT 557.7 billion (35 per cent.) to reach MNT 2.13 trillion (USD 1.53 billion), which constituted 23 per cent. of the assets of the banking system
- total deposits increased by MNT 522.6 billion (40 per cent.) to reach MNT 1.84 trillion (USD 1.32 billion) which constituted 28 per cent. of the total deposits in the banking system
- current accounts increased by MNT 112 billion (23 per cent.) to reach MNT 589.5 billion
- demand deposits increased by MNT 79.7 billion (27 per cent.) to reach MNT 374.9 billion while time deposits increased by MNT 330.9 billion (61 per cent.) to reach MNT 875.8 billion

Total Assets (MNT billion)

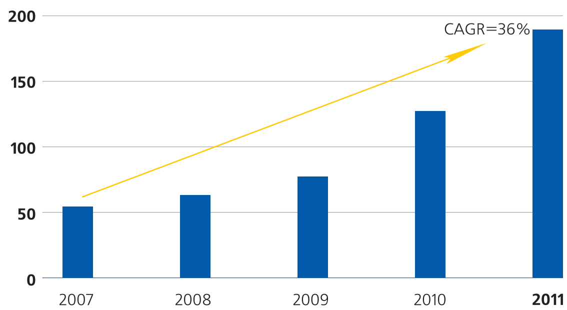


Total Deposits (MNT billion)

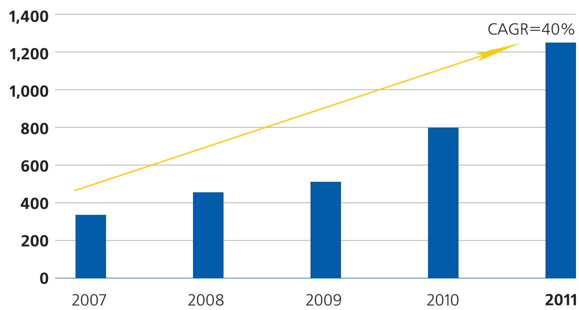


- Tier I capital rose by MNT 56.4 billion to reach MNT 140.2 billion, following a USD 20 million equity investment by Swiss-MO Investment AG and organic growth from net profit of MNT 30.2 billion. When aggregated with Tier II capital of MNT 48.9 billion, total capital rose by 48 per cent. to reach MNT 189.1 billion equivalent to USD 135.4 million
- Net loans and advances grew by MNT 461.3 billion (59 per cent.) to reach MNT 1.25 trillion (USD 0.9 billion) comprising 23 per cent. of the total credit extended by the banking system

Capital (MNT billion)

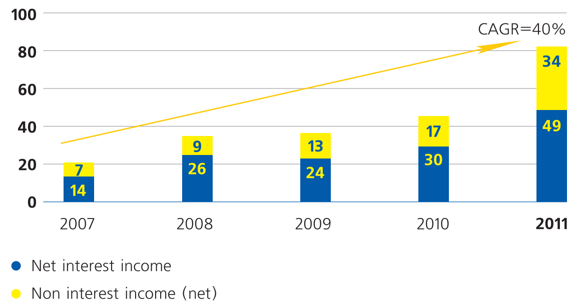


Net Loans (MNT billion)

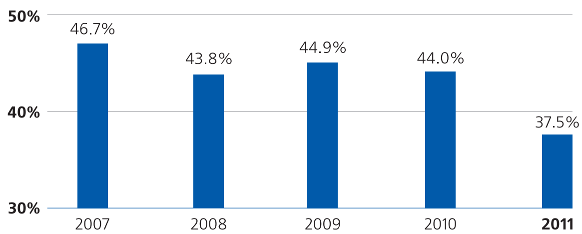


- Net profit grew by MNT 10.2 billion (51 per cent.) to MNT 30.2 billion (USD 21.7 million) from MNT 20.1 billion in 2010
- Operating income increased to MNT 82.6 billion (USD 59.2 million), rising by MNT 36.2 billion (78 per cent.)
- Net interest income was up by MNT 19.2 billion (65 per cent.) to reach MNT 48.9 billion (USD 35 million) while Net Interest Margin remained at the 3.6 per cent. level
- Net non-interest income grew by 16.9 billion (101 per cent.) from MNT 16.7 billion to reach MNT 33.7 billion
- Net foreign exchange income from customer transactions increased by MNT 11.7 billion to reach MNT 19.5 billion
- Fee and commission income increased by MNT 5.6 billion (44 per cent.) to reach MNT 18.2 billion, of which 35 per cent. emanated from card related services.

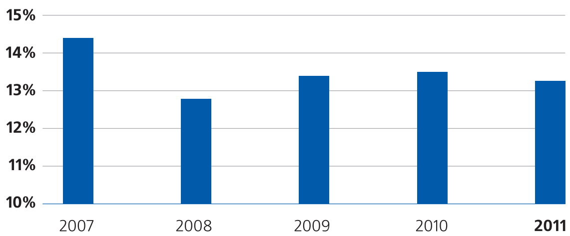
Operating Income (MNT billion)



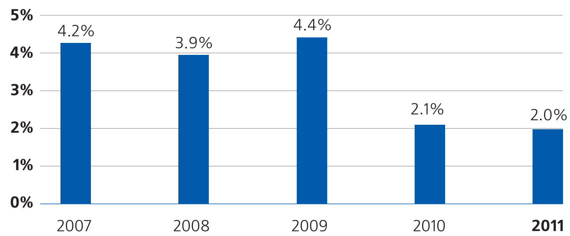
Cost Income Ratio (%)



Capital Adequacy Ratio (%)



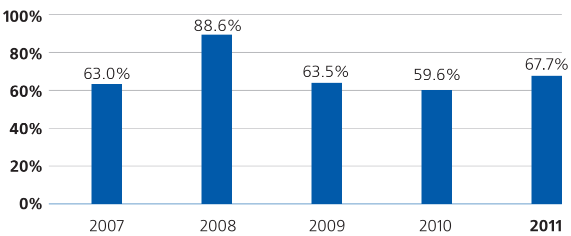
NPL Ratio (%)



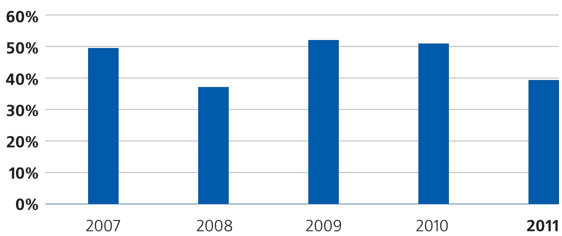
The Bank continued to exhibit the strongest overall intrinsic financial strength of all fourteen domestic banks:

- Net loans to deposits ratio remained at the prudential level of 67.7 per cent. significantly lower than the systematic average of 83.4 per cent.
- Cost-income ratio showed a welcome decline to 37.5 per cent. from 44 per cent. in 2010
- Non-performing loans ratio decreased to 2.0 per cent., the lowest among the leading banks, reflective of the stringency of our credit evaluation, sanction and monitoring policies
- NPL coverage ratio increased from 63.6 per cent. to 79.8 per cent. compared with 2010
- Capital to Risk Weighted Assets Ratio was 13.3 per cent., more than 10 per cent. higher than the minimum level of 12 per cent. stipulated by The Bank of Mongolia, our central bank
- Liquidity ratio was 38.9 per cent., which remained the highest in the banking system.

Net Loans to Deposits Ratio (%)



Liquidity Ratio (%)



Five year financial results

	2007	2008	2009	2010	2011
Balance Sheet Indicators (MNT million)					
Total Assets	652,051	697,179	1,013,109	1,573,413	2,131,065
Deposits	512,485	505,171	795,251	1,317,499	1,840,136
Net Loans	323,026	447,787	505,299	784,605	1,245,919
Capital	54,871	63,548	78,471	127,774	189,087
Profitability Indicators (MNT million)					
Interest Income	44,564	69,318	81,832	111,157	165,165
Interest Expense	(30,228)	(43,569)	(57,905)	(81,448)	(116,240)
Net Interest Income	14,336	25,749	23,927	29,708	48,925
Non Interest Income (net)	7,231	8,912	13,333	16,749	33,686
Operating Expense	(10,078)	(15,178)	(16,712)	(21,242)	(32,545)
Credit and Receivables Loss Expense	(2,299)	(3,958)	(3,240)	983	(8,681)
Impairment loss on financial investment	-	-	-	-	(1,450)
Taxation	(1,811)	(3,324)	(4,138)	(6,145)	(9,691)
Post -Tax Profit	7,378	12,201	13,170	20,053	30,244
Financial Structure Ratios					
Deposits / Total Assets	78.6%	72.5%	78.5%	83.7%	86.3%
Equity / Total Assets	5.9%	7.3%	6.3%	5.3%	6.6%
Net Loans / Total Assets	49.5%	64.2%	49.9%	49.8%	58.5%
Net Loans / Deposits	63.0%	88.6%	63.5%	59.6%	67.7%
Non Performing Loans to Total Loans	4.2%	3.9%	4.4%	2.1%	2.0%
Gearing Ratio (Total Liabilities/ Total Capital)	10.9	10.0	11.9	11.4	10.3
Profitability Ratios					
Return on Average Assets (%)	1.6%	1.8%	1.6%	1.7%	1.7%
Return on Average Equity (%)	17.3%	24.3%	22.5%	26.6%	26.3%
Net Interest Margin (%)	4.1%	4.2%	4.1%	3.6%	3.6%
Cost Income Ratio (%)	46.7%	43.8%	44.9%	44.0%	37.5%
Prudential Ratios					
Capital Adequacy Ratio >12%	14.4%	12.8%	13.4%	13.5%	13.3%
Forex Exposure Ratios:					
Total Currency <+/- 40%	8.1%	11.9%	11.8%	17.1%	10.5%
Single Currency <+/- 15%	5.8%	9.5%	10.0%	11.2%	-5.1%
Single Borrower Exposure/Capital funds <20%	17.5%	19.5%	19.9%	17.6%	19.7%
Related Party Exposure < 5%	2.7%	3.7%	3.5%	3.4%	3.4%
Related Party Exposure - Total < 20%	8.8%	10.5%	15.9%	10.3%	12.6%
Liquidity Ratio	49.3%	37.0%	51.7%	51.2%	38.9%
Fixed Assets Ratio < 8%	1.0%	1.0%	0.7%	1.6%	1.4%

CREDIT RATINGS

In November 2011, Standard & Poor's Ratings Services assigned 'BB-' long term and 'B' short-term counterparty credit ratings with a stable outlook to the Bank. This constituted the first occasion on which any Mongolian bank had secured a credit rating from Standard & Poor's.

On 2nd January, 2012 Standard & Poor's revised its long term rating for the Bank to 'B+' with a positive outlook as a result of a change in their internal rating methodology entailing analysis of Mongolia's economic risk and industry risk scores to determine the anchor score for a bank operating only in Mongolia. Standard & Poor's views the Bank's business as "strong", which reflects our good market position in the domestic banking industry. In addition to our good position in credit services, international trade finance, and treasury services, our efficient franchise enables us to secure stable funding sources and enjoy a more diversified revenue mix compared with local peers. The rating agency considered that there is a degree of implicit support for Golomt Bank from the Mongolian Government in times of financial distress, due to the Bank's systemic importance.

This downward revision by one notch did not in any way reflect any deterioration in the economy of Mongolia or the underlying business and profitability of the Bank itself: merely a change in their rating methodology in part reflective of prior weakness in their analytical approach.

Similarly, in November 2011, Golomt Bank was assigned by Moody's bank financial strength rating (BFSR) of D-, which corresponded to a standalone rating of Ba3 on their long-term scale. The rating assigned to the Bank's foreign currency deposits was B2, with domestic currency bank deposits afforded a Ba3 rating, both with a stable outlook. Moody's cited the Bank's strong domestic franchise as the largest bank in terms of deposits; our ability to leverage our strength in corporate lending and trade financing; an adequate capital position and a good level of efficiency.

Moody's has recently placed the Bank's credit ratings, along with those of all other Mongolian banks, on review for possible downgrade following Moody's release of new rating implementation guidance that reflects a revised assessment of the linkage between the credit profiles of sovereigns and financial institutions globally.

Reflective of the herd mentality which appears to be so prevalent among the rating agencies, Moody's is following Standard & Poor's in choosing to revise their own internal methodology notwithstanding the absence of any underlying deterioration in the financial condition or capacity of either the Bank or the Government of Mongolia. In the case of Moody's it is patently clear that their methodology revision follows their prior failure correctly to appraise the intrinsic value of the sovereign debt of certain peripheral European nations as well as the linkage to their banking sectors which were funding their fiscal deficits in a self-destructive feedback loop. It is noteworthy but seemingly beyond the perspicacity of Moody's that neither Golomt Bank nor any of our respected Mongolian competitor banks are engaged in funding our Government's modest fiscal deficits.

Consistent with their revised policy guidance, Moody's expects to position the standalone credit assessment of most banks globally at or below the domestic sovereign rating, which in the case of Mongolia they determine to be B1, with a stable outlook. They have indicated their expectation of potential downgrades of the Mongolian bank ratings by a maximum of one notch.

RISK MANAGEMENT AND CONTROL

Credit risk management

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations as and when those obligations become due. We are exposed to credit risk primarily through our financial and investment assets and contingent liabilities. We limit our credit risk concentrations to individual borrowers, groups of borrowers or industrial sectors by controlling credit exposures, including guarantees, financial instruments in which we invest as part of our Treasury activities, letters of credit and interbank deposits. These limits on credit and counterparty risk apply not only to our lending activities (which are included as part of the loan approval process discussed below), but also restrict the maximum exposures to which, through the activities of the Treasury Division, we may be subject at any time in managing our risk.

Our credit approval process, credit strategy, policies and procedures follow the guidance set out in the Principles for the Management of Credit Risk published by the Basel Committee on Banking Supervision (the "Basel Committee"). The Principles for the Management of Credit Risk provide guidance for the management and control of credit risk by way of 16 principles, focused on four key themes namely: (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk.

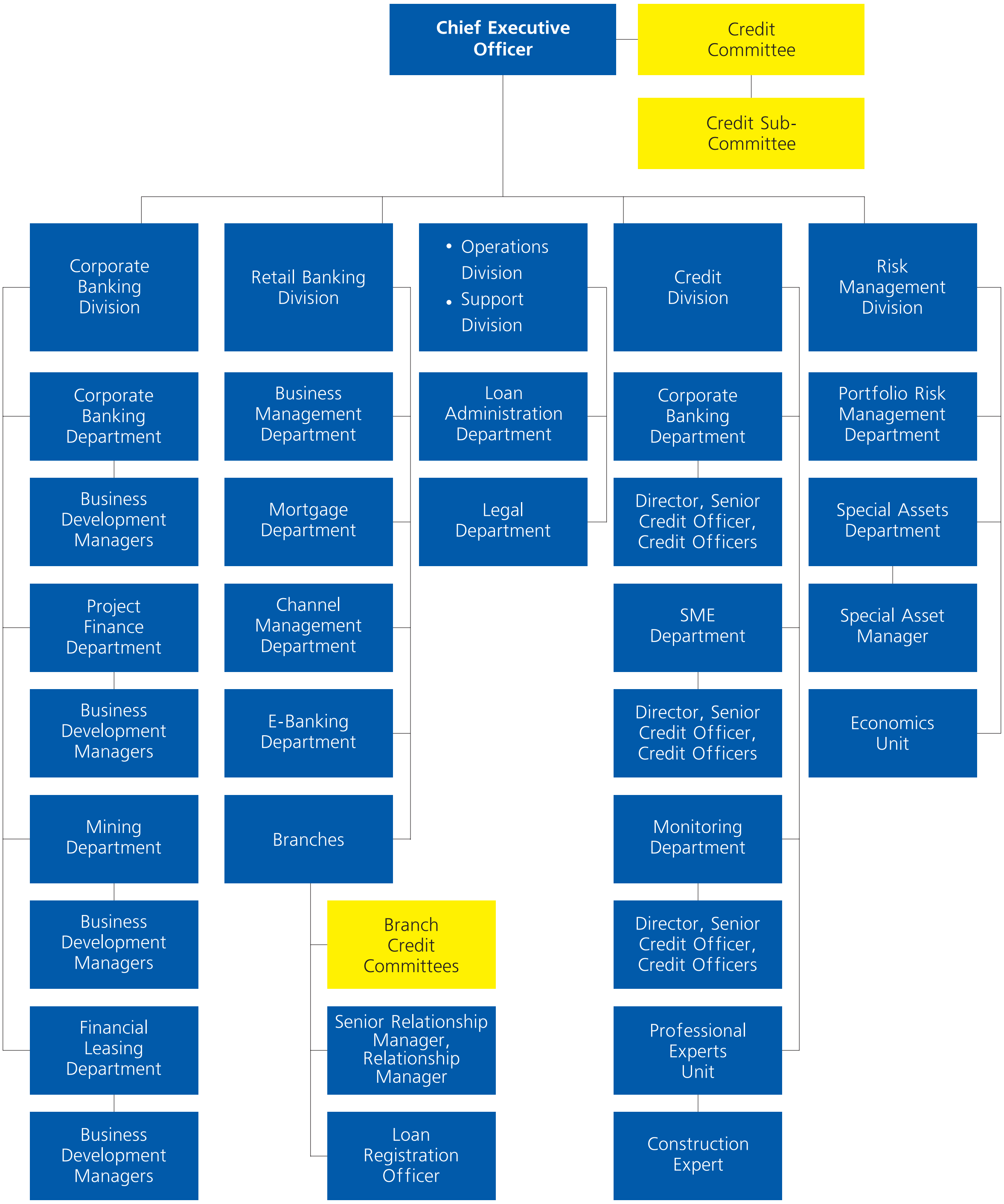
Our credit policy is intended to mitigate the credit risk arising out of our lending activities in the context of our growth strategy. For the purposes of our credit policy, we assume that Mongolia's economy will continue to grow over the medium-term, accordingly, we plan to accommodate further expansion of our loan portfolio while maintaining our stringent credit approval standards. Our Board of Governors, the Risk Management Committee and Senior Management are responsible for periodically reviewing and approving our credit strategy and policies. Our Board of Governors is also responsible for setting the primary ratios and other critical balance sheet-related factors, including the maximum leverage ratio, minimum regulatory capital ratio, and loans to deposits ratio, used in our operations and management of credit risk.

We have developed an internal credit rating system that we use for corporate and SME loans in excess of MNT 50 million to assess impartially and accurately the repayment capacities of organizations and individuals prior to loan disbursement. The system takes into account three broadly defined factors, namely: the main-industry and sub-sector in which the borrower operates, underlying business prospects (including borrower experience, diversification in business segments, customers, market share and branding) and the specific financial status of the individual borrower. The results of this proprietary credit assessment are used by the Credit Committee, Credit Sub-Committee and Branch Credit Committees, as applicable, in order to determine credit decisions and monitor outstanding loans.

For analysis of corporate loans and SME loans, we consider, among other things, the potential borrower's credit history, industry, marketing and consumer behavior, management, control and financial condition, as well as any detailed appraisal of the collateral that will be provided for the loan.

In our analysis of consumer loans, we consider, among other things, the potential borrower's employment history, and length of employment with the current employer and monthly payment to income ratio, which should not exceed 45 per cent. for customers from rural areas or 55 per cent. for customers from urban areas, as well as any guarantees or undertakings provided by the potential borrower's employer. Consumer loans over MNT 30 million must be approved by the Credit Sub-Committee.

For mortgage loans, we require that potential borrowers have a consistent employment history of at least three years and that their monthly payment to gross income ratio does not exceed 45 per cent.. All mortgage loans must be approved by the Credit Sub-Committee or Credit Committee as appropriate.



Lending Policies and Procedures

We manage our credit risk by closely monitoring and managing the quality of all the elements of our risk portfolios. The Credit Committee is responsible for all issues relating to our lending policies in accordance with the directives of the Board of Governors and the Risk Management Committee. The Credit Committee sets the limits on the levels of aggregate and individual credit risk by each borrower, as well as limiting exposure to any one borrower or group of related borrowers by imposing sub-limits covering on and off-balance sheet exposures. The Credit Committee monitors credit risk on a continual basis and subject to quarterly or more frequent reviews. We conduct comprehensive exposure reviews of each corporate borrower at a minimum of once per year.

The Credit Committee is responsible for approving the terms of credit facilities for amounts over MNT 300 million, while the Credit Sub-Committee is responsible for approving the terms of credit facilities for amounts up to MNT 300 million.

Within each branch, credit decisions for loans below the credit limit allocated to that branch are approved by the Branch Credit Committee. Maximum lending limits for each branch are set by the Credit Committee. Individual branch lending limits can be increased up to the maximum for branches, and reduced or revoked, depending on the individual branch's compliance with our credit policies and ongoing reviews of their performance history and the economic environment.

Lending Process

There follows a detailed description of our loan approval process:

- Corporate loans: Corporate lending represents the largest segment of our lending activities. Our corporate lending proposals are initiated by business development managers in the Corporate Banking Division. Prospective corporate customers are contacted by a business development manager to consider a preliminary proposal. Following the favourable outcome of such discussions, the business development manager logs the terms of the proposal within the Corporate Banking Department of the Credit Division as a proposal under discussion and the loan is evaluated within the separate Credit Division before submission to the Credit Committee, or Credit Sub-Committee as applicable. Such submissions entail a detailed financial analysis of the credit proposal and the borrower in order to have an in depth knowledge of the customer and the industry in which the client operates. The analysis will include feasibility studies and assessment of the market position, reputation and experience of the prospective corporate borrower. If applicable, we obtain credit references and other references on the borrower from third parties, including other banks and various governmental authorities, such as taxation bodies and the credit bureau within The Bank of Mongolia that collates information regarding borrowers' credit history. We internally appraise the value of the proposed collateral utilising in house professional expertise or engage an independent assessor and conduct appropriate legal title identification and lien searches
- SME loans: SME loans over MNT 300 million are subject to the same review and sanction process as corporate loans. SME loans between MNT 50 million and MNT 300 million are discussed by members of the Branches and SME Unit of the Credit Division for submission to the Credit Sub-Committee or a Branch Credit Committee, as applicable. The Branches and SME Unit of the Credit Division then perform their analysis of the proposed loan, including a credit assessment and report under our internal credit rating system, before making a recommendation to the Credit Sub-Committee or the branch credit committee, as applicable for loan of any given size. Loans of less than MNT 50 million are considered by the applicable Branch Credit Committee with a recommendation from the Monitoring Department of the Credit Division
- Credit review process: After the Credit Division receives a proposal from the Corporate Banking Department or the Branches and SME Department; it logs the proposal into its credit database as a "credit awaiting approval" and then undertakes an independent analysis of the proposal. The Credit Division principally evaluates the proposal based on a defined range of factors under our internal procedures, including: (i) sectoral limits established for various industries and products; (ii) single borrower limits and group of related borrowers' limits; (iii) indicative pricing of the proposed loan; (iv) the maturity profile of the loan portfolio; (v) the composition and weighting of the loan portfolio; and (vi) other macroeconomic issues and estimates as are considered appropriate under our internal credit approval guidelines at the determination of the Credit Division. Credit requests are prepared by experienced credit officers based on their

analysis and evaluation of a debtor's creditworthiness. We use all available statistical data and external reports to assess the creditworthiness of borrowers. Under the credit approval policy, the Credit Committee, the Credit Sub-Committee or the relevant Branch Credit Committee, as applicable, must approve applications depending on the amount of the requested facility.

The risk-rating methodology utilizes both quantitative and qualitative factors to evaluate acceptable borrower credit risk and includes: (i) the borrower's credit history; (ii) its market position (market share and general reputation); (iii) the management capabilities of the borrower (e.g., profitability, gross margins, return on assets, marketing and sales growth, production capabilities, asset turnover, receivables and related metrics); and (iv) the borrower's financial condition (e.g., capitalisation, profitability, liquidity, working capital and liabilities to total assets). The risk-rating methodology also considers industry-wide factors relating to the borrower's business, such as its industrial sustainability, predominant consumer behavior and consumption patterns, its competitors and potential market entrants as well as barriers to entry, including governmental restrictions. We employ a risk-rating matrix of a nine-point scale with "9" representing the highest risk and "1" representing the lowest risk. Each point signifies an increasing and relative probability of a customer's ability to fulfill its repayment obligations over the relevant time period. The individual maturity profile and maximum available loan commitment for any customer exposure is progressively reduced as any factor under the rating scale identifies increasing credit risk from our assessment of the customer or the lending proposal

- Retail loans: Our retail loan process is similar to our corporate loan process. Most of our retail customers apply for a loan with a relationship manager in one of our branch offices. If the proposed terms of the loan are acceptable to the retail customer and the required supporting documentation is provided, the relationship manager logs the loan application with the Credit Division and prepares a financial analysis for a review by the Branch Credit Committee for those loans that are within the approval authority of the branch credit committee. If the amount of the loan exceeds the allocated credit ceiling of the Branch Credit Committee, the loan application is transferred to the Credit Sub-Committee or the Credit Committee, as appropriate, for evaluation and determination of the application.

Loan Monitoring

We manage our on-going credit risk exposure through regular analysis of the capacity of potential borrowers to satisfy interest payments and principal loan repayment obligations, and also by instituting lending limits of an appropriate amount, maturity and conditionality together with collateral requirements in order to provide an alternative means for us to liquidate and source funds to satisfy a borrower's repayment obligations should there be any unforeseen impediment to the primary cash flow and repayment source. The Monitoring Department of the Credit Division conducts on-going reviews of our loan portfolio. This assessment includes identifying loans designated on a "Watch List" for more frequent monitoring due to indications of a heightened risk of non-payment or livelihood of default as well as classified portfolio reviews, which are conducted on a monthly basis. The review process assesses the loan portfolio by risk rating and by general industry risk rating. Relationship managers participate in the periodic review process, which solicits input regarding their account relationships. When a loan has been placed on the "Watch List," relationship managers contact customers to discuss strategies to reduce the risk of delayed or non-payment. Related departmental officers, credit officers and senior management also participate in the process. Following the input of all relevant officers, the Monitoring Department within Credit Division prepares a closing review report for management evaluating the structure, composition, balance and tenor of the loan portfolio, and its assessed credit quality, quotient. In addition it presents the pertinent risk return metrics and highlights all salient issues arising from the assessment such as changes in the macro-economic environment.

Loan Collection Process

Primarily we entrust responsibility for loan collection to the relationship managers and credit officers and require that evidence of all collection activity, whether in writing or conducted verbally, be maintained in our records. In the event of late payment, our policies require that customers be contacted for payment within five days of the scheduled due date, and, depending on the outstanding amounts and customer's payment history, relationship managers are encouraged to proactively make such contact in appropriate cases prior to the due date. The manner and frequency of such contacts are determined by the amount of delinquent principal interest payment, and we direct greater efforts toward larger outstanding balance accounts and any customers with a history of slow payment. Although the Corporate and Retail Banking Divisions have discretion to establish the priority and frequency of collection contacts, generally the first contact for all past due accounts is made by a combination of telephone and e-mail correspondence. Subsequent collection efforts are then determined based on the results of the initial contact.

Generally, the loan collection process involves the following:

- we send all customers a monthly account statement identifying all past due balances. In addition, selected accounts identified by relationship managers and separately monitored by the Credit Division are entered into an automated process which issues periodic reminders to "Watch List" or delinquent customers to maintain regular contact
- for those customers with overdue balances in excess of 30 days, credit officers re-assess the customer's liquidity and creditworthiness and contact those customers to recommend alternative business management practices, such as accounts receivable policies, marketing strategy, sales growth strategies, pricing policies and increases in raw material and goods turnover in order to assist the customer to strengthen its prospects for current and future cash flows
- after initial remedial efforts have been undertaken to recover outstanding amounts, accounts delinquent more than 90 days are transferred to the Special Assets Department of the Risk Management Division for further appropriate action
- any disputed item, claim, or payment deficiency identified by the Credit Division is also notified to the Special Assets Department for resolution. The Special Assets Department is given a period of 30 days to attempt to resolve all disputes and upon expiry of that period, it is required to instruct third-party collection agents to commence recovery efforts on our behalf accompanied by appropriate legal action.

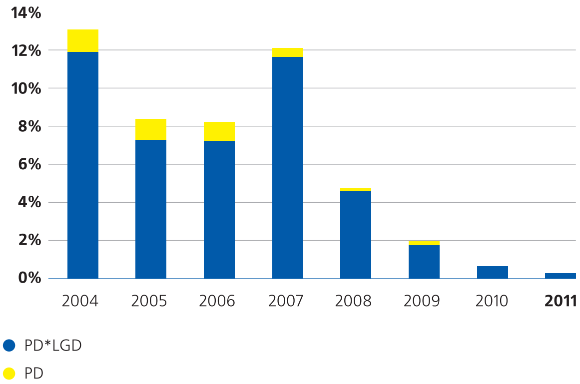
Credit Risk Modeling and Portfolio Quality

We utilize proprietary methodology compliant with the requirement of IAS 39: Financial Instruments: Recognition and Measurement of the International Accounting Standards Board (IASB) to estimate credit risk components and the probabilities of default and loss given default. The proprietary methodology facilitates management of credit risk exposures through objective reappraisals of limit ranges, concentration factors and other applicable parameters. The Past Due and NPL classification includes loans overdue for one or more days and those loans which are determined to be impaired in the management's view in accordance with IAS 39: Financial Instruments: Recognition and Measurement (which requires that a loan's carrying value be no greater than its estimated future cash flows discounted at an effective interest rate). In assessing the loans, a borrower's financial positions as well as external environmental factors are taken into account.

Industry Analyses and Concentrations

We apply concentration limits to our loan portfolios to manage overall loan portfolio credit quality. Under our internal policies, aggregate loans to any single sector of the economy are limited at a maximum of 30 per cent. of the total loan portfolio. In addition, we set other limits, such as a limit on loan exposure to any single borrower, connected group of borrowers, and rating and country limits. Management believes that our loan concentration reflects the concentrated and less diversified evolving structure of the current economy of Mongolia and, to mitigate industry concentration risks, we periodically review local industrial sectors in order to identify opportunities to diversify our loan portfolio. As at 31 December 2011, our principal sectoral credit risk component was mining, which accounted for 13.3 per cent. of our total gross loan portfolio, while the second largest sectoral credit risk component was manufacturing, which accounted for 9.7 per cent. of our gross loan portfolio.

Credit Risk Measurement Methodology



Loan Classification and Loan Loss Provisioning Policy

The Credit Committee is responsible for the development and regulation of the quality of our loan portfolio. The Portfolio Risk Management Department within the Risk Management Division monitors our overall loan portfolio using a centralized system to evaluate the quality of the loan portfolio and the requirements for loan loss provisions in relation thereto.

Loans are monitored on a constant basis, which allows us to identify problem loans at an early stage. In addition, for loans greater than MNT 1 billion, an in depth review of each borrower's financial condition is carried out on-site on a quarterly basis or as soon as any payment by the borrower is overdue more than 14 calendar days. We assess the status and value of all collateral at least four times per year. Whenever repayment is one day late, the Credit Division begins working on recovery of the problem loan.

Loans and off-balance sheet exposures are classified by reference to: (i) the customer's financial performance; (ii) the timeliness of repayment of principal and/or interest; (iii) the quality of collateral; (iv) whether there has been any extension of the loan; (v) the timeliness of repayments of other loans; (vi) whether there has been any unauthorized use of the loan; (vii) whether other credits to that customer have become impaired; and (viii) any rating assigned to the customer.

The Portfolio Risk Management Department produces a monthly report, which includes the analysis of the credit risks within the loan portfolio. The Credit Division focuses upon the timeliness of debt repayment with classified loans and contingent liabilities included in such monthly reports. Immediate action is taken by the appropriate departments, which have responsibility for supervising and monitoring loan repayment if any principal or accrued interest repayment problems arise. Any significant deterioration in the quality of the assets and contingent liabilities of the entire loan portfolio is brought to the attention of the Credit Committee.

Our financial statements are prepared in accordance with IFRS. Calculation of loan loss provisions for the purposes of our IFRS financial statements are carried out on at least a semi-annual basis, while we monitor our prospective loan losses based on management data on a daily basis. For the purposes of preparing our financial statements under IFRS, we record charges to loan loss provisions collectively for all loans and individually for loans we have identified as impaired.

Liquidity Risk

Liquidity risk is the risk that we might be unable to meet our financial obligations in a timely manner or on reasonable terms as these fall due. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments. Liquidity risk arises in the general funding of our financing and investment activities and in the management of positions. This risk includes unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates and the inability to liquidate a position in a timely manner on reasonable terms.

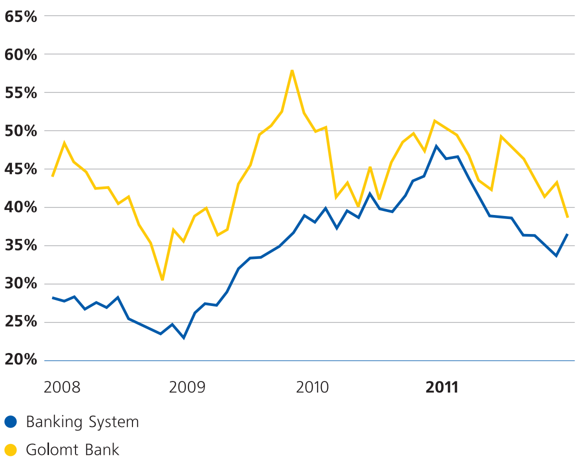
Our liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that short- and medium-term payment obligations could be met under normal or stressed conditions. Accordingly, our policies are intended to ensure that, even under adverse conditions, we have access to sufficient funds to satisfy customer needs, maturing liabilities and the capital requirements of our operations, while maximizing our interest earnings and other income on any surplus cash flows. We seek to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations while funding our operational needs and enabling our compliance with regulatory minimum capital requirements.

Liquidity is managed centrally on a real-time basis by the Treasury Division according to the requirements and forecasts for all of our divisions and branches. The Director of the Treasury Division is consulted on each major credit decision in respect of the impact on our overall liquidity position. In addition, the ALCO reviews our liquidity guidelines and strategy on at least a bi-weekly basis, making any necessary adjustments. The Risk Management Committee of the Board sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive framework for our liquidity risk management. We observe conservative limits and guidelines, which reflect our low tolerance of liquidity risk, and the ALCO monitors our compliance with the liquidity risk standards and policies.

As part of a comprehensive liquidity risk evaluation, the ALCO incorporates and monitors the cumulative effect of the following factors: (i) short- and long-term cash flow management; (ii) maintaining a structurally sound balance sheet; (iii) foreign currency liquidity management; (iv) preserving a diversified funding base; (v) undertaking regular liquidity stress testing; and (vi) maintaining adequate liquidity contingency plans.

The ALCO's monitoring process is supported by a number of internal and external control systems. Our external control systems apply purpose-built technology, documented process and procedures, independent oversight by the Risk Management Division and the Risk Management Committee, and regular independent reviews and evaluations of the effectiveness of the system. In connection with these internal and external control systems, we utilize a variety of tools to evaluate liquidity risk, including (i) interest rate, maturity and foreign currency gap analysis on a monthly basis, (ii) daily monitoring of actual cash flows, and forecasting cash flows and our long-term estimated balance sheet, (iii) monitoring of optimal asset and liability structures on a monthly basis by the Financial Control Division, (iv) observations of liquidity ratios and minimum reserve requirements on a daily basis, (v) discussions by the ALCO of anticipated liquidity options for the ensuing month based on analytical reports, capital market projections, and liquidity requests by internal divisions such as the Treasury and Corporate Divisions, and (vi) limits on operations, such as liquidity ratios, limits on gap sizes, and monthly lending limits, all of which are monitored by Risk Management Division.

Liquidity Ratio



Maturity analysis represents the basis of our effective management of exposures to structural liquidity risk since expected cash flows vary significantly among contractual maturities. We predict the probable maturities of our assets, liabilities and off-balance-sheet commitments that are payable on demand or on short notice by applying behavioral profiling based on our historical experience with similar assets, liabilities and off-balance-sheet commitments that exhibit stable behavior. The process is intended to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current accounts and demand deposits, which although contractually repayable on demand or on short contractual notice periods, consistently exhibit stable behavior over various time periods predicated upon analytical evaluation. We set limits and guidelines to mitigate the mismatch between expected inflows and outflows of funds during the measurement period and actively manage our short-term funding ratios to preserve liquidity and offset structural imbalances, which could arise in the ordinary course of business. We assess our net liquidity gap arising from structural factors on the basis of the following key metrics:

- Net loans / Current accounts & deposits
- Deposits with The Bank of Mongolia + Cash / Current accounts & deposits
- Assets up to one month / Liabilities up to one month
- Funds from banks and financial institutions / Current accounts & deposits
- Deposits with banks & financial institutions / Current accounts & deposits
- Liquid assets / Current accounts & deposits + Funds from banks & financial institutions
- Liquid assets / Current accounts & deposits + Funds from banks & financial institutions + Contingent liabilities
- Liquid assets / Total assets
- Net loans / Total assets
- Net loans / Current accounts & deposits
- Net loans / Current accounts & deposits + Funds from banks & financial institutions
- Term deposits / Total liabilities
- Foreign currency assets / Total assets
- Deposits with banks & financial institutions + Foreign currency deposits / Foreign currency current accounts & deposits
- Net foreign currency loans / Total assets
- Foreign currency liquid assets / Foreign currency current accounts & deposits
- Wholesale current accounts & deposits / Current accounts & deposits
- Government current accounts & deposits / Current accounts & deposits and
- Other concentration analysis ratios.

Foreign Currency Liquidity Management

We incur foreign currency risk as a result of having assets, liabilities plus on and off-balance sheet items that are denominated in currencies other than the Mongolia Tugrik, as a result of our normal funding and investing activity. We observe a wide range of parameters in the event of changes either in market liquidity or in exchange rates and accordingly work to contain the extension of our foreign currency loans within a sustainable funding base for each foreign currency. The goal of our foreign currency risk management policies is to minimize currency exposure by requiring net liabilities in any one currency to be matched closely with net assets in the same currency. Historically, we have always managed and continue to manage our foreign currency risk principally by holding or lending the proceeds of our borrowings in the currencies in which they were borrowed. In addition, as a matter of core policy we ensure that borrowers have a foreign currency income stream, which matches the currency of the loan.

Diversified Funding Base

Concentration risk limits are used to ensure that funding diversification is maintained across all sectors and wholesale deposits. Deposits across a very broad spectrum of wholesale and retail customers, and subordinated borrowings constitute our primary sources of non-capital based funding.

Liquidity Stress Testing

Anticipated balance sheet cash flows are subjected to a variety of both bank-specific and systemic stress test scenarios in order to evaluate the impact of plausible events on the liquidity positions. The stress test scenarios are based on both historical and hypothetical events (e.g., a specific or systemic crisis both assessed at escalating levels of gravity), with the results guiding our targeted liquidity risk positions.

Liquidity Contingency Plans

We periodically assess our contingency plans for protecting the interests of all our stakeholders and maintaining the market's confidence in order to counteract the effects of any sustained liquidity crisis. These contingency plans incorporate a number of early warning indicators and set out crisis response strategies, which may be implemented in the event of such liquidity crises. We monitor these early warning indicators based upon specified frequencies and tolerance levels, and our response strategies are formulated based on the relevant crisis management structure. Our response plans include internal and external communications strategies, proposed steps to generate additional liquidity and enhanced information disclosure, as well as proactive cooperation and information sharing with regulatory authorities and our Shareholders.

Market Risk

Market risk is defined as the risk of incurring losses (which may be significant) resulting from adverse changes in risk factors such as interest rate, foreign exchange rate, fixed income, equity and other financial instrument prices (including derivatives), and general market volatility. We are exposed to market risk because of our proprietary positions in trading and non-trading business portfolios and also our Treasury operations as well as through the risk of default by counterparties upon matched, hedged or arbitraged market transactions.

The Risk Management Committee of the Board establishes our annual risk strategy statement, which sets an overall limit for market risk and sub-limits for sectors and instruments. The ALCO monitors market risk exposure within the parameters set by the Risk Management Committee through a review of interest rate and currency exchange rate exposures, and identifies current events and forecasts future developments that could have a material adverse impact upon our operations and financial condition.

The Treasury Division is responsible for the day-to-day management of market risk. The Treasury Division manages our market risk exposure by monitoring our asset composition, investment instruments and categories, and hedging transactions within approved counterparty limits, in each case as directed per the policies and procedures approved by the Risk Management Committee. The Treasury Division reports directly to the Chief Executive Officer and operates under the on-going oversight and supervision of the ALCO.

Interest Rate Risk

The principal market risk arising from our non-trading activities is interest rate risk. Interest rate risk is defined as the risk to earnings or capital arising from movements in interest rates; from changing rate relationships along yield curves that impact our activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-rate-related options embedded in our obligations (option risk). The evaluation of interest rate risk considers the impact of complex, illiquid hedging strategies or products, and also the potential impact on fee income that is sensitive to changes in interest rates. We mainly face interest rate risk due to:

- assets and liabilities which may mature or reprice at different times (e.g., if assets reprice faster than liabilities and interest rates are trending downwards, earnings will decline)
- assets and liabilities which may reprice at the same time but by different amounts (e.g., when the general level of interest rates is falling, we may be constrained to reduce rates paid on deposit accounts by an amount that is less than the general decline in market interest rates)
- short-term and long-term market interest rate movements may diverge (e.g., the shape of the yield curve may affect new loan yields and funding costs differently)
- the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change (e.g., if long-term mortgage interest rates decline sharply, mortgagees may prepay earlier than anticipated, which could materially reduce income).

The principal objective of our interest rate risk management activities is to increase profitability by limiting the effect of adverse interest rate movements and increasing net interest income by managing interest rate exposure. We manage our interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, we manage and minimize risk through maturity gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gaps and (iii) minimum interest rate on allocation of resources.

Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the periodic repricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on interest income. We monitor our interest rate risk by estimating our exposure to the risk of interest rate and interest margin change, monitoring existing risks with regard to established limits, constant monitoring of news that may impact our interest rate position, and monitoring of interest rate risk on new banking products. In addition, we analyze the composition of our assets and liabilities and off-balance sheet financial instruments.

The current limitations on our ability to reprice our loan portfolio in between contractual maturities are in contrast to the potential repricing of our deposits where our current accounts and short-term deposits are subject to repricing at any time in response to market forces.

Value-at-Risk

The primary areas of risk in the trading book arise from foreign exchange and derivative trading activities that are exposed to repricing and to changes in their basis risk and market liquidity. The principal risk factors are interest rate, foreign exchange, and equity prices.

The primary focus of our trading activities is as an intermediary for our customers to provide appropriate financial services at competitive prices. We also undertake:

- market making (such as quoting firm bid (buy) and offer (sell) prices with an intention of profiting from the spread between the quotes)
- arbitrage (such as entering into offsetting positions in different but closely related markets in order to profit from market imperfections)
- proprietary activity (such as taking positions in financial instruments as a principal in order to take advantage of anticipated market conditions), all within tightly controlled authorized exposure and counterparty limits.

All Divisions exposed to market risk are required to comply with our trading policy requirements. Of these requirements, the most important is specifically determined limits that are included in the trading authorities, which constitute one of the cornerstones of market risk management. According to the trading policy, any breach thereof must be followed by strict remedial action in accordance with the relevant policy.

(MNT thousand)	Delta Normal	Monte Carlo	Historical Simulation
31st December	94,723	82,478	146,194
Average Daily	104,820	107,649	141,578
Highest	339,147	362,101	477,653
Lowest	8,632	9,046	11,103

We apply three types of value-at-risk (“VaR”) methodology to measure the market risk of our trading and Treasury portfolios. VaR technique produces estimates of potential negative changes in the market value of a portfolio over a specified time horizon within a given confidence level. We use measurement periods of one and ten trading days in our VaR analysis and we verify our results by an automated daily programme of back-testing to compare the actual profits and losses realized in trading activities to VaR estimates. A measurement period of ten trading days complies with The Bank of Mongolia's prudential limits and results in a confidence level of 99 per cent.. In addition to VaR methodology, we also conduct recurrent stress testing to identify potential losses in excess of the projected VaR.

Operational Risk

Operational risk is defined as the probability of incurring losses resulting from inadequate or defective internal process and systems, human and technical failures, or external events.

Through a framework of disciplined, analytical control and by monitoring and responding to potential risks, the Bank manages its diverse operational risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education, on-going training and assessment processes, including the critical oversight of the Internal Audit function.

The Bank enjoys the benefits of a comprehensive range of insurance policies designed to ensure that the business continues to operate without impediment or interruption. Such insurance policies help eliminate both product and operational risks and reduce the restructuring cost of any failure in the Bank's ordinary operations due to unpredictable or overwhelming external events.

The Bank has explicit definitions on the operating authorities delegated at all levels within both Head Office and branches with precisely documented and codified practices to address and mitigate operational risks through a diversity of measures including:

- strong and independent Internal Audit verification
- high quality independent external audit processes in accordance with IFRS and International Standards on Accounting and Auditing
- comprehensive operational risk management systems
- clearly identifying and segregating functions and monitoring systems at each business level
- enhancement of effective human resource risk management based on policy covering human resource turnover, human resource rotation etc.
- decision to set aside an operational risk capital charge in accordance with Basel Committee recommendation
- development and utilisation of our proprietary operational risk database which is used to assess and forecast all aspects of operational risk management
- strengthening security and developing on-site supervision
- on-site risk assessment of operational units which are considered to entail a heightened degree of risk and provision of the necessary guidelines to address and mitigate those higher operational risk quotients
- setting and Implementation of operational standards for branch offices in order to identify, assess and mitigate their risks
- enhancement of information technology risk management policies and procedures
- regular testing and development of our comprehensive Disaster Recovery and Business Continuity Plan
- implementation of distance control daily check-sheets for all branches
- regular on-site training on operational risk prevention for all branch managers and officers
- enhancement of restrictive and control mechanisms on operating activities of branches
- adoption of online and published of Policies, Procedures Manuals addressing all aspects of branch operations and controls
- standardization of account opening processes
- enhancement of impaired account management processes

Predicated upon historical analysis of both the sectoral and internal exposure quotients of operating risk we have adopted a metric of a maximum level of operating loss of not more than 2 per cent. of total operating income. It is gratifying to report that actual levels of realised operating losses for the year 2011 outturned at the rate 0.02 per cent. constituting only 1 per cent. of the imputed allowance.

Information Risk Management

Information risk includes the risk of accidental or intentional unauthorised use, modification, disclosure, or destruction of information resources which could adversely affect our ability to preserve our records, maintain business continuity, preserve the confidentiality of our proprietary or sensitive information or harm our reputation among customers. Our information risk management practices are in accordance with global best practices and all applicable laws and regulations. The Operations Risk Department within the Risk Management Division is responsible for the oversight of accounting control, user logs, servers and core banking application functions. In that capacity, the Operations Risk Department uses a number of programmes customised for our specific requirements to conduct its daily monitoring function.

Disaster Recovery and Business Continuity Management

Our disaster recovery and business continuity plan is a vital component of our contingency planning to ensure our ability to maintain a stable operating and service environment in the event of any unforeseen but significant disruption to the orderly conduct of our business disruptions. Accordingly, we have in place a Disaster Recovery and business continuity plan designed to overcome any potential disruptive crises through advanced planning and preparation. The Operations Risk Department is responsible for ensuring the compliance of all Divisions with our Disaster Recovery and business continuity plan and, together with the combined Disaster and Business Recovery Teams, monitors all issues that could threaten or impede our routine business continuity and efficacy.

Fraud Risk Management

Fraud risk management is another important element of operational risk management. While operational risk management generically focuses on the risks associated with errors and events in transaction processing or other business operations, fraud risk management specifically assesses the likelihood that any errors or events could transpire as the result of deliberate dishonest acts. A core element of our corporate governance is the identification and rectification of potentially fraudulent acts. We work to prevent all types of fraudulent acts such as false accounting or theft of cash or other bank assets. To that end, we have developed and implemented a comprehensive anti-fraud strategy that uses ethics and anti-collusion policies by applying comprehensive controls and procedures at all operational levels. Moreover, we have assessed each area and process within our business, and classified all perceivable potential fraud risks through identification and categorization of potential offences and potential perpetrators.

Compliance Risk Management

Compliance risk refers to the risk of failing to comply with applicable laws, regulations, codes of conduct and standards of good practice, which may result in regulatory sanctions, financial losses or reputational damage. We have adopted international best practice and adhere to all applicable legislation and regulations in the development of our compliance framework. The framework includes the principles of effective compliance risk management issued by the Basel Committee and reflects a decentralized compliance risk management structure. We focus on maintaining compliance with all applicable laws and regulations while monitoring developments in respect of pending legislation.

Special Asset Recovery

Our Special Asset Recovery Department deals with monitoring and recovering problem loans. Our determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria, including: the credit's classification as described above; sudden changes in transaction volumes in the customer's accounts; applications to change credit terms; failure of the customer or a counterparty to fulfill terms under a contract relating to the credit; or a customer's refusal to cooperate and/or evasion of our officers. In the event of a potential problem loan, our special asset managers undertake a comprehensive evaluation of the borrower's assets, and business prospects while involving all the responsible credit officers, relationship managers and industry experts.

After that initial analysis, the Special Asset Recovery Department managers adopt an appropriate course of action intended to collect all overdue and future payments within a specified timeframe. We generally work together with our corporate customers, beginning soon after a potential problem loan has been identified, to suggest management strategies to meet their commitments, such as collecting on accounts receivable, selling fixed assets and improving their marketing effectiveness and operational efficiency. Collection efforts are determined based on the results of previous customer contacts, the customer's creditworthiness and their amenability to repayment proposals, which are acceptable to us.

In appropriate cases, we may adopt a workout strategy by modifying the original terms of the loan. Under this strategy, the Special Asset Recovery Department works with a borrower to adjust the terms of the problem loan, including cancelling payment of penalty fees, granting a grace period or reducing monthly payments, with a view to maximising our recoveries. Any changes to the terms of a loan must be first presented to and approved by the Credit Committee, Credit Sub-committee or Director of Risk Management, depending on the size of the credit.

If the loan reverts to our standard classification and is no longer considered a problem loan (the borrower having repaid the amount overdue with payment obligations back on schedule), the Special Asset Recovery Department continues monitoring the loan for another six months.

If a NPL is not repaid within one year, it is transferred to the Legal Department for appropriate enforcement action. Alternatively, we may initiate legal action to secure a judgement and transfer the case to a court enforcement agency to collect overdue amounts. We have experienced personnel to handle all the legal and practical aspects of the debt recovery process. In these cases, legal action typically can take between six to twelve months but in some cases can be resolved earlier, while others can take a longer period of time. In any case, before applying to the court to auction collateral, we make an informed assessment based on our own expertise and, if necessary, conduct an independent appraisal regarding the estimated realizable value of the collateral at auction.

Anti-Money Laundering Control

Legislation pertaining to anti-money laundering and terrorist financing control requires significant record keeping and customer identification requirements on financial institutions as well as the obligation to identify, prevent, and report any suspicious activity. The Bank continuously strengthens its commitment to combat money laundering and terrorist financing by constantly improving its policies and control mechanisms in tandem with the ever more dynamic regulatory environment. The Bank has adopted an AML/CFT (Anti-Money Laundering/Counter Financing Terrorism) Program that includes four pillars: a) designation of an individual responsible for managing AML/CFT compliance; b) a system of internal controls to ensure ongoing compliance; c) training for all employees of the bank especially customer facing personnel; d) independent testing of the AML/CFT Program.

Policies and internal controls include "Know Your Customer" monitoring, employee training, suspicious activity reporting, and risk assessment. The monitoring of customer accounts and suspicious activities is based on the identification of unusual and large amount cash and noncash transactions generated by the Bank's Suspicious Activity Monitoring System and internal procedures. As is required by legislation the Bank reports all large volume cash and international transactions to the Financial Information Unit of The Bank of Mongolia on a weekly basis.

Furthermore, the Bank's policy requires that all employees be trained in anti-money laundering techniques and prevention of terrorist financing at least annually. To that end, the Bank provides all its new recruits with an overall comprehensive training program while maintaining regular training and knowledge updates for all existing staff. In addition, all employees in branches, frontline operational and internal control areas as well as employees of specific units such as Private Banking Department are provided with specialized supplementary training. The AML/CFT Unit provides the Management with all necessary information and reports to the Board of Governors on a quarterly basis.

The Bank's AML Officer has earned the Certified Anti-Money Laundering Specialist credential awarded by Association of Anti-Money Laundering Specialists which is recognized by public agencies and leading banks worldwide.

Furthermore, the Bank adopts full compliance and the applicable requirements of the compliance with US Patriot Act with a Process Agent located in United States to act upon our behalf.

CORPORATE SOCIAL RESPONSIBILITY

At all levels within Golomt Bank, we appreciate that our responsible approach to business is a decisive element determining the long-term success of the Bank. We therefore strive to provide substantial financial and material support to community initiatives focusing upon the key areas of health, education, the environment, arts and culture, sports, social development and economic affairs. The following constitute examples of some of these leading initiatives:

Supporting Education

The Bank recognizes the important role that highly qualified and educated people will play in Mongolia's future social, cultural and economic development. Therefore, for many years we have been committed to supporting education:

- in conjunction with The Bank of Mongolia, the Bank sponsored and organized the 10th Student's Scientific Conference for students from all Mongolia's leading universities
- the Bank implemented our longstanding University Students' Scholarship Programme for the 9th consecutive year which provides monthly stipends to 100 students of outstanding academic achievement
- as the exclusive provider of the student's payment card service in Mongolia, the Bank actively supports the Government Programme to distribute MNT 70,000 monthly grants for qualified students in Mongolian universities
- in the framework of our employee recruitment campaign titled "Success Starts with the Right Job!", the Bank specifically targeted newly graduated students in order to help them to enter the labor market
- the Bank a sponsored a new library facility to enhance the professional and research expertise of all the employees of Shastin Central Hospital #3.

Supporting environment

The protection of the natural environment is one of the most pressing issues of our time. Therefore, environmental sustainability is very much an integral element of the Bank's management focus. A every level of our operations we carefully consider the impact of our environmental footprint:

- Credit Evaluation: An assessment of the environmental impact constitutes an integral element of our credit evaluation process. We do not support any project which is perceived to be deleterions to the environment. Through our lending policy, we also support businesses, which implement energy-efficient and environmentally friendly operational procedures
- Financing environmentally friendly business: The Bank is the only institution to extend Environmental Protection Loans to its clients among commercial banks implementing Phase 2 of TSL Project Loan Programme supported by Japanese International Cooperation Agency in cooperation with the Ministry of Finance
- Promoting the efficient use of resources: The benefits of online banking include less paperwork, less mail and less fuel driving to branch offices, which all generate a positive impact on the environment. The Bank is actively expanding its E-banking services and promoting the usage of our E-banking service channels. In addition, within its internal feedback procedure, the Bank introduced a SharePoint and JIRA system in order to reduce volumes of paper hence helping to protect the environment
- Contributing to reduce air-pollution through mortgage loans: Air pollution in Ulaanbaatar and other major cities surpasses acceptable levels with an adverse effect on the general health and well-being as well as the environmental balance. As part of our corporate social responsibility, the Bank supports young families and households by providing tailored mortgage loans with flexible terms and conditions to enable them to improve their own living standards, welfare and environment as well as that of society as a whole
- Employee Volunteers for humanitarian and social activities: As well as significantly increasing the value of our financial contributions, the Bank actively encourages all our employees to become involved in voluntary activities which give them an insight into the needs of the people among whom they live and work and to create an opportunity to develop their

interpersonal skills and team spirit while endeavouring to assist in reducing the challenges endured by less fortunate elements of society

- All employees volunteered to contribute one day's salary for the benefit of those Japanese citizens so adversely affected by the Tsunami
- Aiming to increase public awareness and knowledge of green earth and green economy issues, the Bank continued its established campaign named "Green Earth Starts with Us" in which all our employees participate
- Employees implemented tree planting projects for Golomt Bank's "Golden Key" deposit holders as part of our ongoing environmental initiative "Green Earth Starts with Us"
- The Bank and its employees opened the "Happy Children" ecological garden in cooperation with MasterCard Worldwide, Visa International, American Express and Union Pay of China again under the auspices of our environmental initiative "Green Earth Starts with Us".

Supporting Sports and Culture

Our sponsorship in the arenas of sport, culture and the arts form a key part of our commitment to the broader Mongolian community. These activities focus on Olympic sports and football as well as classical arts, and traditional music reflective of Mongolia's unique cultural heritage. We place a particular emphasis on the promotion of young talent in both sporting and cultural fields:

- continued sponsorship of the State Academic Theatre of Opera and Ballet in order to contribute to development of the classical arts and increase the knowledge and appreciation of arts and culture among citizens and residents of Mongolia
- continued our leading sponsorship role in support of the Mongolian National Olympic Committee, to support the development of Mongolian Olympians and excellence in sports with a particular focus upon London 2012
- sponsoring the State Morin Khuur Ensemble to produce a DVD entitled "Playing Love" and "Novel Melody" concert to promote Mongolia's most famous traditional musical instrument
- sponsoring the first performance of the opera Aida by Giuseppe Verdi at the Mongolian State Opera and Ballet Theatre;
- sponsoring the Mongolian Student's Team to the Summer Universidad 2011 in Shenzhen, China in collaboration with our valued partner, Union Pay of China
- sponsoring the Mongolian National Chess Contest and the contest among Mongolia's young musicians.

Supporting the Government's Initiatives

We continue to provide significant financial and intellectual support to the development initiatives of the Government to attract foreign direct investments to Mongolia and strengthen international relations:

- through our membership of the World Economic Forum, Global Growth Companies and Institute of International Finance, Emerging Markets Advisory Council, we actively promote the interests of Mongolia in supporting our economic expansion and development
- sole sponsor of the PACI (Partnering Against Corruption Initiative) and Responsible Mining Initiative Forum under the joint auspices of the office of President Elbegdorj of Mongolia and the World Economic Forum in Geneva
- sponsored the first "Judicial Reform and Justice Forum" initiated by the President of Mongolia
- co-sponsored with The Bank of Mongolia, our respected central banking regulator, the 4th Summit for Foreign Exchange Professionals
- selected as the Bank of the Event for Discover Mongolia-2011 the leading investment forum for the country's mining sector and supply chain
- supported the President and Prime Minister on their official missions to Kuwait, Qatar, United Arab Emirates, Russia, China, Hong Kong and the United States of America
- derived economic presentations to official missions from the United Kingdom, the Czech Republic, Singapore, Germany and Austria
- sponsored the 3rd "Mongolia Economic Forum" organized by the Government of Mongolia.

PRODUCTS AND SERVICES

FOR CORPORATE CUSTOMERS:

Deposits and Current Account Services

- Corporate current accounts
- Corporate deposit accounts
- Escrow accounts

Corporate Loan Services

- Working capital loans
- Credit lines
- Investment loans
- Financial leasing
- Mineral Resource loans
- Letters of Credit
- Green loans
- Project loans

Bank Guarantees Services

- Tender Guarantees
- Advance Payment Guarantees
- Performance Guarantees

Trade Finance Services

Foreign Exchange Trading Services

Card Services

- Corporate debit/credit card services
- Co-branded card services
- Card merchants services

Online Banking Services

- Internet Banking
- Mobile Banking apps for smart phone
- E-Billing
- E-Commerce

Payment Services

- Domestic transfer services
- International Settlement services
- Cash collection services
- Safe Box services
- Invoice services
- Account inquiry services

Business Consultancy Services

Investment Banking Services

FOR RETAIL CUSTOMERS:

Deposits and Current Account Services

- Current Account Services
- Time Deposits
- Demand Deposits
- Floating Interest Rate Deposits
- Preliminary Interest Rate Deposits
- Certificate of Deposits
- Gold Deposits
- Accumulated deposit
- "Golden Key" children's deposits
- "Goal achievement" deposits

Escrow Account Services

Loan Services

- Small Medium Enterprise Loans
- Working Capital Loan
- Credit Line
- Investment loan
- Financial leasing
- Project Loans
- SME Development Project Loan
- TSL II SME Development and Environment Protection Project Loan
- ADB Employment Generation Project Loan
- Consumer Loans
- Salary loan
- Household loan
- Apartment Renovation loan
- Auto loan
- Training
- Saving-Backed loan
- Mortgage Loan
- Mortgage loan
- "Easy start" mortgage loan for young family
- Mortgage loan for Private housing

Foreign Exchange Trading Services

Private Banking Services

- Wealth management

Credit/Debit card Services

- Visa card issuing/acquiring service
- Mastercard card issuing/acquiring service
- CUP card issuing/acquiring service
- Amex acquiring service
- Co-branded card service
    - MIAT Mileage
    - Air Network
    - Chamber's Visa Gold
    - JCI loyalty card
- Gift card service
- "Nandin" picture card service with unique design
- Student card (Maestro & Electron)

Online Banking Services

- Internet Banking
- Mobile Banking apps for smart phone
- SIM based Mobile Banking
- E-Billing
- SMS banking
- SMS notification service
- ATM and Mobile ATM
- Call center

Payment Services

- Domestic transfer service
- International Settlement service
- Western Union Service
- Domestic money remittance service
- Cash collection service
- Safe Box service
- Invoice service
- Account inquiry service

Consultancy Services

Investment Banking Services

BRANCH NETWORK

Head Office: Sukhbaatar Square 3, Ulaanbaatar 210620A, Mongolia
Tel: +(976-11) 311971, 311530
Fax: +(976-11) 313155, 312307
Email: mail@golomtbank.com
Web: http://www.golomtbank.com

OFFICES IN ULAANBAATAR

Name	Address	Contacts
Main Branch	Trade Street 6/2, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-311530, ext: 705 Fax: +(976-11)-326231
Sansar Branch	Bayantseel Trade Center, Khoroolol #15, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-456980 Fax: +(976-11)-456829
100 Ail Branch	"And International", B corps, Khoroo #7, Khoroolol #11, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-350542 Fax: +(976-11)-350544
Ard Branch	On and On Building, Baga Toiruu Street, Khoroo #1, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-320712 Fax: +(976-11)-330436
Solongo Branch	Solongo Service Center, Seoul Street, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-320814 Fax: +(976-11)-318479
Sapporo Branch	Barmon Building, Khoroolol #1, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-681267 Fax: +(976-11)-680367
Moscow Branch	Bodi International LLC Building, Khoroolol #4, Bayangol District, Ulaanbaatar	Tel: +(976-11)-305419 Fax: +(976-11)-368602
120'000 Branch	120 Myangat Service Center, Khoroo #1, Khan-Uul District, Ulaanbaatar	Tel: +(976)-70130080
Monnis Branch	Monnis Tower, Khoroo#1, Sunkhbaatar District, Ulaanbaatar	Fax: +(976-11)-321273
Bayanzukh Branch	Bo-Bo Trade Center, Khoroo #15, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-458250 Fax: +(976-11)-462892
Loan Center Branch	Burkhan Khaldun Building, Khoroo #2, Peace Avenue, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-330072 Fax: +(976-11)-330621
Golomt City Branch	Building #1, Golomt City Complex, Khoroo #5, Constitution Street, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-322943 Fax: +(976-11)-322943
Airport Settlement Center	"Chinggis Khaan" International Airport, Khan-Uul District, Ulaanbaatar	Tel: +(976-11)-283205 Fax: +(976-11)-283205
Customs Settlement Center	Customs Office, Bayangol District, Ulaanbaatar	Tel: +(976-11)-242943 Fax: +(976-11)-242943
Baganuur Settlement Center	Kherlen Trade Center Building, Baganuur District, Ulaanbaatar	Tel: +(976-01-21)-22333 Fax: +(976-01-21)-20818
Tsambagarav Settlement Center	Tsambagarav Trade Center, Khoroolol #1, Songino-Khairkhan District, Ulaanbaatar	Tel: +(976-11)-680762 Fax: +(976-11)-680763
Tsetsee Gun Settlement Center	Tsetsee Gun University, Khoroo #4, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-316395 Fax: +(976-11)-316395
13-r Khoroolol Settlement center	"MGL" Building, Manlaibaatar Damdinsuren Street, Khoroo #25, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-457018
Tamir Settlement Center	"Khanna-Impex" company building, Ard Ayush Street, Khoroolol #3, Bayangol District, Ulaanbaatar	Tel: +(976-11)-304959 Fax: +(976-11)-304959
Narantuul Settlement Center	Administration Building, Narantuul International Trade Center, Bayanzurkh District, Ulaanbaatar	Tel: +(976-11)-457018

Ikh Delguur Settlement Center	"Zan International" Building, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-311530, ext: 1050 Fax: +(976)-70111352
Nomin Settlement Center	State Department Store, Peace Avenue, Chingeltei District, Ulaanbaatar	Tel: +(976-11)-313232 Fax: +(976-11)-314242
Central Tower Settlement Center	Central Tower, Sukhbaatar square, Khoroo #4, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-326474 Fax: +(976-11)-326494
32 Toirog Settlement Center	Sansar-32 Trade Center, 32-r toirog, Khoroo #12, Sunkhbaatar District, Ulaanbaatar	Tel: +(976)-77443232 Fax: +(976)-77443131
Songinokhairkhan Settlement Center	Javkhlant Building, Khoroo #19, Songinokhairkhan District, Ulaanbaatar	Tel: +(976-11)-636205 Fax: +(976-11)-636217
IBMUT Settlement Center	National Registration Office, Police street, Khoroo #11, Sukhbaatar District, Ulaanbaatar	Tel: +(976-11)-350267
SHUTIS Settlement Center	Central Campus of Mongolian University of Science and Technology, Khoroo #8, Baga-toiruu, Zaluuchuud avenue, Sukhbaatar District, Ulaanbaatar	Tel: +(976)-70111530
Kino Uildver Settlement center	Asgat Co.,Ltd Building, Khoroo #5, Bayanzurkh District, Ulaanbaatar	Tel: +(976)-455341
Max Mall Settlement center	MaxMall Trade Center, Peace Avenue, Bayangol District, Ulaanbaatar	Tel: +(976)-70111227
Urguu Settlement center	Hotu Building, Khoroolol #3, Bayangol District, Ulaanbaatar	Tel: +(976-11)-368276
Variete Settlement Center	Gazar Holding Co,Ltd Building , Khoroo #4, Bayangol District, Ulaanbaatar	Tel: +(976)-70129701
10th Khoroolol Settlement Center	Old Czech Building , Khoroo #5, Khoroolol #10, Bayangol District, Ulaanbaatar	Tel: +(976-11)-682108
Tengis Settlement Center	Victory center, Sambuu's street, Khoroo #5, Chingeltei District, Ulaanbaatar	Tel: +(976)-70120520 Fax: +(976)-70120522
Bayanzurkh Business Center	'Mungun guur' NBO Building, Khoroolol #12, Khoroo#3, Bayanzurkh District, Ulaanbaatar	Tel: +(976)-70157094
Da-Khuree Settlement Center	Trade center #3, Building of 'Da khuree'' Co,Ltd, Shar had street, Khoroo #17, Bayanzurkh District, Ulaanbaatar	Tel: +(976)-70151533
Japan Town Settlement Center	ICTower, Japan Town, Mahatma Gandhi street, Khoroo #1, Khan-Uul District, Ulaanbaatar	Tel: +(976)-70129702
Zaisan Settlement Center	Bileg #2 Building, Zaisan street, Khoroo #1, Khan-Uul District, Ulaanbaatar	
Premier Banking	Bodi Tower, Sukhbaatar square#3, Ulaanbaatar	Tel: +(976-11)-311530 Fax: +(976-11)-326840

OFFICES IN AIMAGS

Name	Address	Contacts
Orkhon Branch	Amar Square, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70355100 Fax: +(976)-70355100
Darkhan Branch	Golomt Bank Office, Bag #13, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976)-70373928 Fax: +(976)-70377136
Khovd Branch	The Bank of Mongolia Building, Tsambagarav bag, Jargalant Soum, Khovd Aimag	Tel: +(976)-70432115 Fax: +(976)-70432195
Bayan-Ulgii Branch	Golomt Bank Office, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976)-70442012
Umnugobi Branch	Golomt Bank Office, Bag #3, Dalanzadgad City, Umnu-gobi Aimag	Tel: +(976)-70533990 Fax: +(976)-70533991
Dornod Branch	Khishig Agro Building, Bag #7, Kherlen Soum, Dornod Aimag	Tel: +(976)-70582703 Fax: +(976)-70582702
Dornogobi Branch	Vanjildorj's Building, Bag #1, Sainshand Soum, Dornogobi Aimag	Tel: +(976)-70523177
Dornod-Kherlen Settlement Center	#24 Building, Bag #6, Kherlen Soum, Dornod Aimag	Tel: +(976)-70582704
Zamiin-Uud Settlement Center	Zamiin Uud Railway Station, Bag #1, Zamiin-Uud Soum, Dornogobi Aimag	Tel: +(976-025-245)-43773 Fax: +(976-025-245)-43773
Tirlik Settlement center	Armon Store, Bag #5, Ulgii Soum, Bayan-Ulgii Aimag	Tel: +(976)-70422008
Orkhon-Pyramid Settlement center	Tod Jargal Company Building Sogoot Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70353789 Fax: +(976)-70353789
Orkhon-Loan center	Orkhon-Chandmani Building, Uurkhaichin Bag, Bayan-Undur Soum, Orkhon Aimag	Tel: +(976)-70357058
Sukhbaatar Settlement center	Monos Center, Bag #7, Baruun-Urt Soum, Sukhbaatar Aimag	Tel: +(976)-70512006
Darkhan-Loan center	Mandakh Bayasakh Building, Bag #8, Darkhan Soum, Darkhan-Uul Aimag	Tel: +(976)-70375098 Fax: +(976)-70375098
Khuvsgul Branch	"Damdinsuren" Building, Bag #8, Murun Soum, Khuvsgul Aimag	Tel: +(976)-70388474 Fax: +(976)-70388474
Khovd-Bulgan Settlement center	Burenkhairkhan Bag, Bulgan Soum, Khovd Aimag	Tel: +(976)-70432178
Uvurkhangai Settlement center	Oyu center, Bag #5, Gendeng District, Arvaikheer Soum, Uvurkhangai Aimag	Tel: +(976)-70322525
Khovd-Bayanburd Settlement Center	Bayanburd center, Jargalant bag, Jargalant Soum, Khovd Aimag	Tel: +(976)-70432175 Fax: +(976)-70432175
Arshand Settlement center	"Gan zam" Building, Bag #4, Sainshand Soum, Dornogovi Aimag	Tel: +(976)-0252242792
Oyu Tolgoi Settlement center	"Oyu tolgoi" Camp, Khanbogd Soum, Umnugovi Aimag	Mobile: +(976)-99032337
Tsogttsetsii Settlement Center	#1-7, Yamaan Khuren Bag, Tsogttsetsii Soum, Umnu-Gobi Aimag	Mobile: +(976)-99057659
Khanbogd Settlement Center	Goyot 1-7 building, Khanbogd Soum, Umnu-Gobi Aimag	Tel: +(976)-70535148 Fax: +(976)-70535148
Gurvan Tes Settlement Center	Khurd Supermarket, Gurvan Tes Soum, Bag #4, Umnu-Gobi Aimag	Tel: +(976)-70536466
Selenge Settlement Center	Bayankhan Trade Center, Sukhbaatar Soum, Sukhbaatar Aimag	Tel: +(976)-70362318 Fax: +(976)-70362318
Bayankhongor Settlement center	"Bayankhongor" department store, Bayankhongor Soum, Bayankhongor Aimag	Tel: +(976)-70444511 Fax: +(976)-70444522

REPRESENTATIVE OFFICES

Name	Address	Contacts
Beijing Representative Office	10E, CITIC Building Tower A19, Jianguomen Dajie, Beijing. China 100004	Tel: +(86-10)-65033876 Fax: +(86-10)-65923727 Mobile: +(86-139)-11737254 Email: golomt@public2.bta.net.cn
London Representative Office	GBRW, 27 Throgmorton Street, London EC2N 2AQ, England	Tel: +(44-0)-20 7382 9900 Fax: +(44-0)-20 7382 9988 Email: jeremy.denton-clark@gbrw.com Email: mail@gbrw.com

GOLOMT BANK

Committed to and Investing in Excellence

INDEPENDENT AUDITOR'S REPORT

Ernst & Young Mongolia Audit LLC

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REPORT OF THE INDEPENDENT AUDITORS
To the shareholders of Golomt Bank LLC

We have audited the accompanying financial statements of Golomt Bank LLC (the "Bank") and its subsidiary (the "Group"), which comprise the statement of financial position as at 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Bank as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

This report is made solely to the shareholders of the Bank, as a body, in connection with the audit requested by shareholders in accordance with Article 91 of the Company Law of Mongolia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young Mongolia Audit LLC

Ernst & Young Mongolia Audit LLC
Certified Public Accountants

Peter Markey
Executive Director

Ulaanbaatar, Mongolia
Date: 14 MAR 2012

GOLOMT BANK
Committed to and Investing in Excellence

GOLOMT BANK LLC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Notes	GROUP 2011 MNT'000	BANK 2011 MNT'000	BANK 2010 MNT'000
Interest and similar income	4	165,165,129	165,165,129	111,156,503
Interest and similar expenses	5	(116,238,120)	(116,239,705)	(81,448,479)
Net interest income		**48,927,009**	**48,925,424**	**29,708,024**
Fees and commission income	6	18,213,204	18,213,204	12,655,448
Fees and commission expenses	6	(3,760,654)	(3,760,654)	(2,742,830)
Net fees and commission income		**14,452,550**	**14,452,550**	**9,912,618**
Net trading (loss)/income	7	(1,296,376)	(1,296,376)	296,189
Other operating income	8	20,530,083	20,530,083	6,540,276
Total operating income		**82,613,266**	**82,611,681**	**46,457,107**
Credit loss expense	9	(8,681,120)	(8,681,120)	982,594
Impairment loss on financial investment	10	(1,450,000)	(1,450,000)	-
Net operating income		**72,482,146**	**72,480,561**	**47,439,701**
Operating expenses	11	(32,545,909)	(32,545,134)	(21,241,842)
Profit before tax		**39,936,237**	**39,935,427**	**26,197,859**
Income tax expense	12	(9,691,528)	(9,691,370)	(6,145,111)
Profit for the year attributable to equity holder of the Bank		**30,244,709**	**30,244,057**	**20,052,748**
Other comprehensive income				
Losses on available-for-sale financial investment, net of tax		(1,779,837)	(1,779,837)	(272,027)
Impairment of available-for-sale financial investment, net of tax		1,450,000	1,450,000	-
Other comprehensive losses for the year, net of tax		**(329,837)**	**(329,837)**	**(272,027)**
Total comprehensive income for the year, net of tax, attributable to equity holders of the Group and of the Bank		**29,914,872**	**29,914,220**	**19,780,721**
Earnings per share (MNT):				
Basic earnings per share	13	1,288.83	1,288.80	914.23
Diluted earnings per share	13	1,030.36	1,030.34	785.15

The accompanying notes form an integral part of the financial statements.

GOLOMT BANK LLC
STATEMENT OF FINANCIAL POSITION
31 December 2011

	Notes	GROUP 2011 MNT'000	BANK 2011 MNT'000	BANK 2010 MNT'000
ASSETS				
Cash and balances with central bank	14	289,877,430	289,877,430	138,054,713
Due from banks	15	221,882,445	221,882,445	249,898,638
Reverse repurchase agreement	16	24,979,395	24,979,395	3,997,668
Derivative financial instruments	17	-	-	4,486
Financial investment - held-for-trading	18	1,061,151	1,061,151	345,472
Financial investments - available-for-sale	18	2,758,940	2,758,940	7,457,330
Financial investments - held-to-maturity	18	304,169,951	304,169,951	355,658,482
Loans and advances to customers	19	1,245,919,223	1,245,919,223	784,604,947
Investment in a subsidiary	20	-	100,000	-
Property, plant and equipment	21	29,599,628	29,599,628	24,508,983
Intangible assets	22	645,661	643,360	1,104,864
Other assets	23	9,321,228	9,324,293	7,777,316
Deferred tax assets	24	749,186	749,186	-
TOTAL ASSETS		**2,130,964,238**	**2,131,065,002**	**1,573,412,899**
LIABILITIES				
Due to banks	25	9,228,503	9,228,503	80,833,669
Due to customers	26	1,840,034,920	1,840,136,411	1,317,499,322
Derivative financial instruments	17	2,570,585	2,570,585	1,506,132
Borrowed funds	27	63,127,467	63,127,467	28,386,592
Subordinated loans	28	47,864,614	47,864,614	42,440,743
Other liabilities	29	26,204,358	26,204,358	18,157,483
Deferred tax liabilities	24	380,420	380,420	-
Current tax liabilities		1,338,671	1,338,596	791,405
TOTAL LIABILITIES		**1,990,749,538**	**1,990,850,954**	**1,489,615,346**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Ordinary shares	30	24,591,543	24,591,543	21,934,142
Share premium		22,344,874	22,344,874	-
Retained earnings		90,884,373	90,883,721	62,161,346
Other components of equity		2,393,910	2,393,910	(297,935)
TOTAL EQUITY		**140,214,700**	**140,214,048**	**83,797,553**
TOTAL EQUITY AND LIABILITIES		**2,130,964,238**	**2,131,065,002**	**1,573,412,899**

The accompanying notes form an integral part of the financial statements.

GOLOMT BANK
Committed to and Investing in Excellence

GOLOMT BANK LLC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	Ordinary shares MNT'000	Share premium MNT'000	Distributable retained earnings MNT'000	Regulatory reserve* MNT'000	Share-based payment reserve MNT'000	Available-for-sale Reserve MNT'000	Total MNT'000
GROUP							
At 1st January 2011	**21,934,142**	**–**	**62,161,346**	**–**	**–**	**(297,935)**	**83,797,553**
Profit for the year	-	-	30,244,709	-	-	-	30,244,709
Other comprehensive losses	-	-	-	-	-	(329,837)	(329,837)
Total comprehensive income/ (losses)	-	-	30,244,709	-	-	(329,837)	29,914,872
Transfer to regulatory reserve	-	-	(1,521,682)	1,521,682	-	-	-
Issue of ordinary shares (Note 30)	2,657,401	22,344,874	-	-	-	-	25,002,275
Share-based payments (Note 33)	-	-	-	-	1,500,000	-	1,500,000
At 31 December 2011	**24,591,543**	**22,344,874**	**90,884,373**	**1,521,682**	**1,500,000**	**(627,772)**	**140,214,700**

*In accordance with the requirements of The Bank of Mongolia, the amount is set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under IAS 39.

GOLOMT BANK LLC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	Ordinary shares MNT'000	Share premium MNT'000	Distributable retained earnings MNT'000	Regulatory reserve MNT'000	Share-based payment reserve MNT'000	Available-for-sale Reserve MNT'000	Total MNT'000
BANK							
At 1st January 2010	**21,934,142**	**–**	**42,108,598**	**–**	**–**	**(25,908)**	**64,016,832**
Profit for the year	-	-	20,052,748	-	-	-	20,052,748
Other comprehensive losses	-	-	-	-	-	(272,027)	(272,027)
At 31st December 2010 and 1st January 2011	**21,934,142**	**–**	**62,161,346**	**–**		**(297,935)**	**83,797,553**
Profit for the year	-	-	30,244,057	-		-	30,244,057
Other comprehensive losses	-		-	-	-	(329,837)	(329,837)
Total comprehensive income/ (losses)	-	-	30,244,057	-	-	(329,837)	29,914,220
Transfer to regulatory reserve	-	-	(1,521,682)	1,521,682	-	-	-
Issue of ordinary shares (Note 30)	2,657,401	22,344,874	-	-	-	-	25,002,275
Share-based payments (Note 33)	-	-	-		1,500,000	-	1,500,000
At 31 December 2011	**24,591,543**	**22,344,874**	**90,883,721**	**1,521,682**	**1,500,000**	**(627,772)**	**140,214,048**

The accompanying notes form an integral part of the financial statements.

GOLOMT BANK
Committed to and Investing in Excellence

GOLOMT BANK LLC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

	Notes	GROUP	BANK	
		2011 MNT'000	**2011 MNT'000**	**2010 MNT'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation		**39,936,237**	**39,935,427**	**26,197,859**
Adjustments for:-				
Accredited interest expenses	5	360,744	360,744	129,165
Changes in fair value of embedded derivatives	7	1,063,189	1,063,189	(45,769)
Changes in fair value of held-for-trading financial investment	7	253,065	253,065	(78,084)
Unrealised loss/(gain) in currency forward contract	7	5,749	5,749	(4,486)
Gain on disposal of property, plant and equipment	8	(14,889)	(14,889)	(7,861)
Unrealised foreign exchange (gain)/loss	8	(930,690)	(930,690)	1,273,765
Credit loss for loans and advances to customers	9	8,620,468	8,620,468	(984,302)
Credit loss for other assets	9	60,652	60,652	1,708
Impairment loss on available-for-sale investment	10	1,450,000	1,450,000	-
Depreciation of property, plant and equipment	11	2,649,241	2,649,241	1,873,137
Amortisation of intangible assets	11	575,057	574,950	976,622
Property, plant and equipment written off	11	9,403	9,403	12,505
Loss from sales of available-for-sale financial investments	11	-	-	8,156
Impairment loss on foreclosed properties	11	1,219	1,219	666,837
Share-based option transaction expense	11	1,500,000	1,500,000	-
Operating profit before changes in operating assets and operating liabilities		**55,539,445**	**55,538,528**	**30,019,252**
Changes in operating assets:-				
Statutory deposits with Bank of Mongolia		(140,053,610)	(140,053,610)	(15,922,000)
Loans and advances to customers		(464,107,554)	(464,107,554)	(284,263,616)
Other assets		(4,272,933)	(4,275,998)	(1,831,321)
Changes in operating liabilities:-				
Due to banks		(71,605,166)	(71,605,166)	27,902,035
Due to customers		522,535,598	522,637,089	522,248,314
Other liabilities		8,046,876	8,046,876	6,046,149
Cash (used in)/generated from operations		**(93,917,344)**	**(93,819,835)**	**284,198,813**
Income tax paid		(9,513,028)	(9,512,945)	(6,180,496)
Net cash flows (used in)/generated from operating activities		**(103,430,372)**	**(103,332,780)**	**278,018,317**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in a subsidiary		-	(100,000)	-
Purchase of financial investments		(51,742,097)	(51,742,097)	(31,516,115)
Proceeds from disposal and maturity of financial investments		5,198,473	5,198,473	30,517,401
Proceeds from disposal of property, plant and equipment		67,484	67,484	33,552

GOLOMT BANK LLC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

	Notes	GROUP 2011 MNT'000	BANK 2011 MNT'000	BANK 2010 MNT'000
CASH FLOWS FROM INVESTING ACTIVITIES (CONTD.)				
Purchase of property, plant and equipment	21	(4,968,107)	(4,968,107)	(21,072,507)
Purchase of repurchase and reverse repurchase agreements		(634,100,512)	(634,100,512)	740,203,868
Proceeds from maturity of repurchase and reverse agreements		634,100,512	634,100,512	(747,936,708)
Purchase of intangible assets	22	(115,854)	(113,446)	(686,155)
Net cash flows used in investing activities		**(51,560,101)**	**(51,657,693)**	**(30,456,664)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares		25,002,275	25,002,275	-
Drawdown of borrowed funds		69,318,280	69,318,280	9,303,161
Repayment of borrowed funds		(34,577,405)	(34,577,405)	(43,511,539)
Drawdown of subordinated loan		-	-	31,411,750
Net cash flows generated from/(used in) financing activities		**59,743,150**	**59,743,150**	**(2,796,628)**
Net (decrease)/increase in cash and cash equivalents		**(95,247,323)**	**(95,247,323)**	**244,765,025**
Cash and cash equivalents brought forward		**691,071,501**	**691,071,501**	**446,306,476**
Cash and cash equivalents carried forward (Note 31)		**595,824,178**	**595,824,178**	**691,071,501**
Operational cash flows from interest				
Interest paid		116,238,120	116,239,705	81,448,479
Interest received		165,165,129	165,165,129	111,156,503

The accompanying notes form an integral part of the financial statements.

GOLOMT BANK LLC
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

1. CORPORATE INFORMATION

Golomt Bank LLC (the "Bank") together with its subsidiary (the "Group") are principally engaged in the business of banking and financial services pursuant to License No. 8 issued by The Bank of Mongolia. There have been no significant changes in the nature of these activities during the year.

The Bank is a limited liability company, incorporated and domiciled in Mongolia. The registered address and the principal place of business of the Bank is 3 Sukhbaatar Square, Ulaanbaatar 210620A, Mongolia.

The Bank is 89% owned by Bodi International Co. Limited, a company incorporated in Mongolia.

The financial statements of the Group and of the Bank were authorised for issue by the Board of Governors in accordance with a resolution of the Governors on 14 March 2012.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Bank have been prepared on a historical cost basis, except for available-for-sale investments, held for trading investments and derivative financial instruments that have been measured at fair value. The financial statements are presented in Mongolian Tugrug, which is denoted by the symbol MNT, and all values are rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of financial statements

The Group and the Bank presents their statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in Note 35.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and of the Bank.

Going concern

The Group's and the Bank's management have made an assessment of the Group's and the Bank's ability to continue as a going concern and is satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's and the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiary for the year ended 31 December.

The subsidiary is fully consolidated from the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra–group balances, transactions, income and expenses are eliminated in full.

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the Group's and the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

Share–based payment transactions

The Group and the Bank measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 33.

Depreciation of buildings

Buildings are depreciated on a straight line basis over the estimated useful life of 40 years even though the lease period of the land on which the buildings are situated is shorter than 40 years. By virtue of the Law of Mongolia on Land, the Bank enjoys the rights to request for extension of the lease period and the authority shall extend the period of lease subject to certain conditions being met. The management believes that the Bank has met the conditions set consistently and for the purpose of depreciation of buildings, the Bank estimated that a cumulative leases period of 40 years is reasonable and appropriate.

Impairment losses on loans and advances

The Group and the Bank reviews their individually significant loans and advances to customers at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances to customers is disclosed in more detail in Note 9 and Note 19.

Impairment of available–for–sale investments

The Group and the Bank reviews their debt securities classified as available–for–sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group and the Bank also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the management evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2. ACCOUNTING POLICIES (CONTD.)

2.2 Significant accounting judgments, estimates and assumptions (contd.)

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates. The valuation of financial instruments is described in more detail in Note 32.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 *Related Party Transactions (Amendment)*

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group and the Bank.

IAS 32 *Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group and the Bank because the Group and the Bank does not have these types of instruments.

IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group and the Bank is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Bank.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group and the Bank.

- IFRS 3 *Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- IFRS 7 *Financial Instruments - Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group and the Bank reflects the revised disclosure requirements in Note 19.

- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group and the Bank:

- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group and the Bank:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

2.4 Summary of significant accounting policies

(1) Business combination

A business combination is accounted for using acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interesy in the acquire either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of the embedded derivatives in host contracts by the acquire.

If the business combination is achieved in stages the acquisition date fair value of the acquirer's previously held equity interest in the acquires is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be reconised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it will not be measured. Sebsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within scope if IAS 39, it is measured in accordance with the appropriate IFRS.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Summary of significant accounting policies (contd.)

(2) Foreign currency translation

The financial statements of the Group and the Bank are presented in Mongolian Tugrug (MNT), which is the Bank and its subsidiary' functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non–trading activities are taken to 'Other operating income' in the statement of comprehensive income. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(3) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group and the Bank become a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derivatives recorded at fair value through profit or loss

The Group and the Bank use derivatives such as forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held–for–trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value in the trading portfolio with changes in fair value recognised in the statement of comprehensive income.

(iv) Financial assets or financial liabilities held–for–trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) Available–for–sale financial investments

Available–for–sale investments include equity securities. Equity investments classified as available-for-sale are those which are neither classified as held–for–trading nor designated at fair value through profit or loss.

The Group and the Bank have not designated any loans or receivables as available–for–sale. After initial measurement, available–for–sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity in the 'Available–for–sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income in 'Other operating income'. Where the Group and the Bank hold more than one investment in the same security they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available–for–sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available–for–sale financial investments are recognised in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the 'Available–for–sale reserve'.

(vi) Held–to–maturity financial investments

Held–to–maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Group and the Bank have the intention and ability to hold to maturity. After initial measurement, held–to–maturity financial investments are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income line 'Credit loss expense'.

If the Group and the Bank were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available–for–sale. Furthermore, the Group and the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

(vii) Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers', include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group and the Bank intend to sell immediately or in the near term and those that the Group and the Bank upon initial recognition designate as at fair value through profit or loss.

- Those that the Group and the Bank, upon initial recognition, designate as available for sale.

- Those for which the Group and the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'Credit loss expense'.

The Group and the Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held–for–trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Group and the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

2. ACCOUNTING POLICIES (CONTD.)

2.4 Summary of significant accounting policies (contd.)

(3) Financial instruments – initial recognition and subsequent measurement (contd.)

(viii) Borrowed funds

Financial instruments issued by the Group and the Bank, that are not designated at fair value through profit or loss, are classified as liabilities under 'Borrowed funds', where the substance of the contractual arrangement results in the Group and the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

An analysis of the Group and the Bank's borrowed funds is disclosed in Note 27.

(ix) Reclassification of financial assets

Effective from 1 July 2008, the Group and the Bank were permitted to reclassify, in certain circumstances, non–derivative financial assets out of the 'Held–for–trading' category and into the 'Available–for–sale', 'Loans and receivables', or 'Held–to–maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available–for–sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'Available–for–sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the statement of comprehensive income.

The Group and the Bank may reclassify a non–derivative trading asset out of the 'Held–for–trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Group and the Bank have the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group and the Bank subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group and the Bank do not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

(4) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group and the Bank have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:

- The Group and the Bank have transferred substantially all the risks and rewards of the asset, or

- The Group and the Bank have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass—through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group and the Bank's continuing involvement in the asset. In that case, the Group and the Bank also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Bank have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

(5) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group and the Bank retain substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase agreements', reflecting the transaction's economic substance as a loan to the Group and to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is expensed over the life of agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group and the Bank reclassify those securities in its statement of financial position to 'Financial assets held—for—trading pledged as collateral' or to 'Financial investments available—for—sale pledged as collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Group and the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the effective interest rate.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held—for—trading' and measured at fair value with any gains or losses included in 'Net trading income'.

(6) Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Summary of significant accounting policies (contd.)

(7) Impairment of financial assets

The Group and the Bank assess at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held–to–maturity investments), the Group and the Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group and the Bank have reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group and the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

The Group and the Bank adopted the basic approach where the impairment allowances are computed on an average of historical loss experience of each risk grouping over the outstanding balance. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available–for–sale financial investments

For available—for—sale financial investments, the Group and the Bank assess at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available—for—sale, the Group and the Bank assess individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

In the case of equity investments classified as available—for—sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income — is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in the fair value after impairment are recognised in other comprehensive income.

(iii) Renegotiated loans

Where possible, the Group and the Bank seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(8) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

(9) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

As a lessee

Leases which do not transfer to the Group or the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Summary of significant accounting policies (contd.)

(9) Leasing (contd.)

As a lessor

Leases where the Group or the Bank do not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

(10) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group or the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group and the Bank revise its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Group and the Bank subsequently increase its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The Group and the Bank earn fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the Group and the Bank's right to receive the payment is established.

(iv) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held–for–trading'.

(11) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

(12) Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Assets under construction are not depreciated. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	10 - 40 years
Leasehold improvements	10 years
Office equipment and vehicles	10 years
Computers	3 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in statement of comprehensive income.

(13) Intangible assets

The Group and the Bank's other intangible assets include the value of computer software, licenses and web domain.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group and the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Summary of significant accounting policies (contd.)

(13) Intangible assets (contd.)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year—end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight—line method to write down the cost of intangible assets to their residual values over their estimated useful lives at the following annual rates:

Softwares and licenses	3 years
Web domain	3 - 5 years

(14) Impairment of non–financial assets

The Group and the Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Bank estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash—generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre—tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group and the Bank estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

(15) Financial guarantees

In the ordinary course of business, the Group and the Bank give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Group and the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the statement of comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of comprehensive income in 'Credit loss expense'. The premium received is recognised in the statement of comprehensive income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

(16) Employee benefits

(i) Short term benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred. The Group and the Bank also contribute to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Group and the Bank.

(17) Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

(18) Share–based payment transactions

Employees (including senior executives) of the Group and the Bank receive remuneration in the form of share–based payment transactions, whereby employees render services as consideration for equity instruments ('equity–settled transactions').

Equity–settled transactions

The cost of equity–settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity–settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group and the Bank's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income expense or credit for a period is recorded in 'Staff costs' and represents the movement in cumulative expense recognised as at the beginning and end of that period.

Where the terms of an equity–settled award are modified, the minimum expense recognised in 'Staff costs' is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share–based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 13).

(19) Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

2. ACCOUNTING POLICIES (CONTD.)

2.4 Summary of significant accounting policies (contd.)

(19) Taxes (contd.)

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(20) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

(21) Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group and the Bank's statement of financial position includes 'Available—for—sale' reserve which comprises changes in fair value of available—for—sale investments, 'Share-based payment reserve' and 'Regulatory reserve'.

(22) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

(23) Segment reporting

The Group and the Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking, and Treasury.

(24) Repossessed assets

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair value less costs to sell and are included in 'Other assets'.

2.5. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 *Income Taxes – Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

2. ACCOUNTING POLICIES (CONTD.)

2.5. Standards issued but not yet effective (contd.)

IAS 19 *Employee Benefits* (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Bank is currently assessing the full impact of the amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS *28 Investments in Associates and Joint Ventures,* and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January.

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS *27 Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers.*

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Bank since the Bank does not have investment in joint venture. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. SEGMENT INFORMATION

For management purposes, the Group and the Bank are organised into five operating segments based on products and services as follows:

Retail banking	-	Individual customers' deposits and consumer loans, overdrafts, credit card facilities and funds transfer facilities.
Corporate banking	-	Loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Investment banking	-	Investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading.
Treasury	-	Treasury and finance and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group and the Bank's total revenue in 2011 or 2010.

3. SEGMENT INFORMATION (CONTD.)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

Group	Retail Banking 2011 MNT'000	Corporate Banking 2011 MNT'000	Investment Banking 2011 MNT'000	Treasury 2011 MNT'000	Unallocated 2011 MNT'000	Total 2011 MNT'000
Income						
Third party	2,336,502	37,670,888	243,253	42,362,623	-	82,613,266
Inter–segment	37,666,562	(9,961,029)	-	(27,705,533)	-	-
Total operating income	40,003,064	27,709,859	243,253	14,657,090	-	82,613,266
Credit loss expense	(4,304,781)	(4,376,339)				(8,681,120)
Impairment losses on financial investments	-	-	-	(1,450,000)	-	(1,450,000)
Net operating income	**35,698,283**	**23,333,520**	**243,253**	**13,207,090**	**–**	**72,482,146**
Results						
Interest and similar income	62,318,009	62,587,877	235,161	40,024,082	-	165,165,129
Interest and similar expense	(43,445,609)	(39,353,724)	(46,744)	(33,392,043)	-	(116,238,120)
Net interest income	18,872,400	23,234,153	188,417	6,632,039	-	48,927,009
Fee and commission income	9,419,887	4,453,470	56,277	4,283,570	-	18,213,204
Fee and commission expense	(852,884)	(3,064)	(1,439)	(2,903,267)	-	(3,760,654)
Net fees and commission income	8,567,003	4,450,406	54,838	1,380,303	-	14,452,550
Net trading income	-	-	-	(1,296,376)	-	(1,296,376)
Depreciation of property and equipment	(2,010,130)	(296,758)	(1,822)	(138,878)	(201,653)	(2,649,241)
Amortisation of intangible assets	(238,296)	(112,001)	(86)	(74,182)	(150,492)	(575,057)
Segment profit (loss)	**14,127,780**	**16,375,599**	**33,235**	**9,751,768**	**(352,145)**	**39,936,237**
Income tax expense	-	-	-	-	(9,691,528)	(9,691,528)
Profit for the year						**30,244,709**
Assets						
Capital expenditures						
Property and equipment	3,323,314	9,402	5,848	5,978	1,623,565	4,968,107
Other intangible assets	-	-	-	-	115,854	115,854
Total assets	**600,648,456**	**732,433,866**	**491,893**	**765,962,644**	**31,427,379**	**2,130,964,238**
Total liabilities	**509,226,622**	**757,607,321**	**497,236**	**718,201,335**	**5,217,024**	**1,990,749,538**

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments.

Bank	**Retail Banking 2011 MNT'000**	**Corporate Banking 2011 MNT'000**	**Investment Banking 2011 MNT'000**	**Treasury 2011 MNT'000**	**Unallocated 2011 MNT'000**	**Total 2011 MNT'000**
Income						
Third party	2,336,502	37,670,888	241,668	42,362,623	-	82,611,681
Inter—segment	37,666,562	(9,961,029)	-	(27,705,533)	-	-
Total operating income	40,003,064	27,709,859	241,668	14,657,090		82,611,681
Credit loss expense	(4,304,781)	(4,376,339)	-	-	-	(8,681,120)
Impairment losses on financial investments	-	-	-	(1,450,000)	-	(1,450,000)
Net operating income	**35,698,283**	**23,333,520**	**241,668**	**13,207,090**	**–**	**72,480,561**
Results						
Interest and similar income	62,318,009	62,587,877	235,161	40,024,082	-	165,165,129
Interest and similar expense	(43,445,609)	(39,353,724)	(48,329)	(33,392,043)	-	(116,239,705)
Net interest income	18,872,400	23,234,153	186,832	6,632,039	-	48,925,424
Fee and commission income	9,419,887	4,453,470	56,277	4,283,570	-	18,213,204
Fee and commission expense	(852,884)	(3,064)	(1,439)	(2,903,267)	-	(3,760,654)
Net fees and commission income	8,567,003	4,450,406	54,838	1,380,303		14,452,550
Net trading income	-	-	-	(1,296,376)	-	(1,296,376)
Depreciation of property and equipment	(2,010,130)	(296,758)	(1,822)	(138,878)	(201,653)	(2,649,241)
Amortisation of intangible assets	(238,296)	(112,001)	(86)	(74,182)	(150,385)	(574,950)
Segment profit (loss)	**14,127,780**	**16,375,599**	**32,318**	**9,751,768**	**(352,038)**	**39,935,427**
Income tax expense	-	-	-	-	(9,691,370)	(9,691,370)
Profit for the year						**30,244,057**
Assets						
Capital expenditures						
Property and equipment	3,323,314	9,402	5,848	5,978	1,623,565	4,968,107
Other intangible assets	-	-	-	-	113,446	113,446
Total assets	**600,648,456**	**732,433,866**	**491,893**	**766,065,709**	**31,425,078**	**2,131,065,002**
Total liabilities	**509,226,622**	**757,607,321**	**497,236**	**718,302,826**	**5,216,949**	**1,990,850,954**

3. SEGMENT INFORMATION (CONTD.)

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments.

Bank (Contd.)	Retail Banking 2010 MNT'000	Corporate Banking 2010 MNT'000	Investment Banking 2010 MNT'000	Treasury 2010 MNT'000	Unallocated 2010 MNT'000	Total 2010 MNT'000
Income						
Third party	(3,524,293)	34,936,902	111,273	14,933,225	-	46,457,107
Inter−segment	28,749,720	(16,126,085)	-	(12,623,635)	-	-
Total operating income	25,225,427	18,810,817	111,273	2,309,590	-	46,457,107
Credit loss expense	(799,728)	1,794,015	-	(11,693)	-	982,594
Net operating income	**24,425,699**	**20,604,832**	**111,273**	**2,297,897**	**–**	**47,439,701**
Results						
Interest and similar income	43,314,938	47,242,527	32,102	20,566,936	-	111,156,503
Interest and similar expense	(30,137,366)	(31,981,973)	-	(19,329,140)	-	(81,448,479)
Net interest income	13,177,572	15,260,554	32,102	1,237,796	-	29,708,024
Fee and commission income	6,473,640	3,547,695	79,823	2,554,290	-	12,655,448
Fee and commission expense	(595,972)	(7)	(652)	(2,146,199)	-	(2,742,830)
Net fees and commission income	5,877,668	3,547,688	79,171	408,091	-	9,912,618
Net trading income	-	-	-	296,189	-	296,189
Depreciation of property and equipment	(1,126,267)	(156,363)	(404)	(82,692)	(507,411)	(1,873,137)
Amortisation of intangible assets	(340,012)	(244,985)	-	(127,937)	(263,688)	(976,622)
Segment profit (loss)	**9,910,278**	**15,598,729**	**41,424**	**1,418,527**	**(771,099)**	**26,197,859**
Income tax expense	-	-	-	-	(6,145,111)	(6,145,111)
Profit for the year						**20,052,748**
Assets						
Capital expenditures						
Property and equipment	8,104,814	18,960	15	3,336	12,950,368	21,077,493
Other intangible assets	-	-	-	-	686,155	686,155
	8,104,814	18,960	15	3,336	13,636,523	21,763,648
Total assets	**314,922,780**	**473,411,703**	**422,235**	**757,314,429**	**27,341,752**	**1,573,412,899**
Total liabilities	**322,675,018**	**448,402,165**	**380,811**	**716,780,416**	**1,376,936**	**1,489,615,346**

A reconciliation of total segment profit before tax to total profit before tax is provided as follows:

	GROUP 2011 MNT'000	BANK 2011 MNT'000	BANK 2010 MNT'000
Total segment profit before tax	**40,288,382**	**40,287,465**	**26,968,958**
Other operating expense	(352,145)	(352,038)	(771,099)
Total profit before tax	**39,936,237**	**39,935,427**	**26,197,859**

Reportable segments' assets are reconciled to total assets as follows:

	GROUP 2011 MNT'000	BANK 2011 MNT'000	BANK 2010 MNT'000
Total segment assets	**2,099,536,859**	**2,099,639,924**	**1,546,071,147**
Cash and balances with central bank	68,679	68,679	81,630
Financial investments – available-for-sale	312,922	312,922	312,922
Loans to employees	2,836,406	2,836,406	2,018,004
Property, plant and equipment	18,891,203	18,891,203	15,699,587
Intangible assets	645,661	643,360	1,104,864
Other assets	7,923,322	7,923,322	8,124,745
Deferred tax assets	749,186	749,186	-
Total assets as per statement of financial position	**2,130,964,238**	**2,131,065,002**	**1,573,412,899**

Reportable segments' liabilities are reconciled to total liabilities as follows:

	GROUP 2011 MNT'000	BANK 2011 MNT'000	BANK 2010 MNT'000
Total segment liabilities	**1,985,532,514**	**1,985,634,005**	**1,488,238,410**
Due to banks	10,526	10,526	33,439
Due to customers	3,113,519	3,113,519	419,357
Financial guarantees	92,676	92,676	88,051
Other liabilities	281,212	281,212	44,684
Deferred tax liabilities	380,420	380,420	-
Current tax liabilities	1,338,671	1,338,596	791,405
Total liabilities as per statement of financial position	**1,990,749,538**	**1,990,850,954**	**1,489,615,346**

4. INTEREST AND SIMILAR INCOME

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Cash and balances with central bank	36,121,145	36,121,145	16,949,480
Due from banks	2,887,166	2,887,166	3,458,002
Reverse repurchase agreements	130,006	130,006	32,102
Financial investments - available-for-sale	-	-	8,482
Financial investments - held-to-maturity	2,749,353	2,749,353	2,591,819
Loans and advances to customers	123,277,459	123,277,459	88,116,618
	165,165,129	**165,165,129**	**111,156,503**

5. INTEREST AND SIMILAR EXPENSES

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Due to customers	110,141,057	110,142,642	74,742,974
Due to banks	1,940,483	1,940,483	1,255,566
Repurchase agreements	236,721	236,721	265,853
Borrowed funds	1,654,263	1,654,263	3,760,212
Subordinated loans	1,904,852	1,904,852	1,294,709
Others	360,744	360,744	129,165
	116,238,120	**116,239,705**	**81,448,479**

6. NET FEES AND COMMISSION INCOME

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Fees and commission income			
Account service fees and commissions	3,052,926	3,052,926	2,586,205
Card related fees and commissions	4,869,878	4,869,878	2,943,140
Credit related fees and commissions	4,900,099	4,900,099	3,365,603
Remittance and other service fees	5,390,301	5,390,301	3,760,500
	18,213,204	**18,213,204**	**12,655,448**
Fees and commission expenses			
Bank service expenses	(1,509,723)	(1,509,723)	(1,158,763)
Foreign currency charges	(2,539)	(2,539)	(11,594)
Card transaction expenses	(2,230,068)	(2,230,068)	(1,564,692)
Online transaction expense	(18,324)	(18,324)	(7,781)
	(3,760,654)	**(3,760,654)**	**(2,742,830)**
	14,452,550	**14,452,550**	**9,912,618**

7. NET TRADING (LOSS)/INCOME

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Changes in fair value of embedded derivative (Note 28)	(1,063,189)	(1,063,189)	45,769
Equities	(253,065)	(253,065)	78,084
Precious metal	7,532	7,532	1,273
Foreign exchange	12,346	12,346	171,063
	(1,296,376)	**(1,296,376)**	**296,189**

"Equities" income includes the results of buying and selling, and changes in the fair value of equity securities.

"Foreign exchange" income includes gain and losses from swap and forward contracts.

8. OTHER OPERATING INCOME

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Dividend income	4,901	4,901	-
Gain on disposal of property, plant and equipment	14,889	14,889	7,861
Realised foreign exchange gain, net	19,462,783	19,462,783	7,776,906
Unrealised foreign exchange gain/(loss), net	930,690	930,690	(1,273,765)
Other operating income	50,120	50,120	29,274
Recoveries on foreclosed properties (Note 23)	66,700	66,700	-
	20,530,083	**20,530,083**	**6,540,276**

9. CREDIT LOSS EXPENSES

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Loans and advances to customers			
Corporate lending	3,737,522	3,737,522	794,015
Small business lending	5,061,463	5,061,463	(1,264,022)
Consumer lending	51,971	51,971	(384,152)
Residential mortgages	(230,488)	(230,488)	(130,143)
	8,620,468	8,620,468	(984,302)
Other receivables (Note 23)	60,652	60,652	1,708
	8,681,120	8,681,120	(982,594)

10. IMPAIRMENT LOSS ON FINANCIAL INVESTMENT

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Financial investment – available-for-sale			
Quoted equities	1,450,000	1,450,000	-

11. OPERATING EXPENSES

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Advertising	1,239,770	1,239,770	982,118
Amortisation of intangible assets (Note 22)	575,057	574,950	976,622
Communications	664,343	664,343	568,789
Decoration	979,129	979,129	645,203
Depreciation of property, plant and equipment (Note 21)	2,649,241	2,649,241	1,873,137
Donations	36,799	36,799	88,850
Entertainment	430,169	430,169	635,580
Impairment loss on foreclosed properties (Note 23)	1,219	1,219	666,837
Insurance	992,574	992,474	298,669
Loan collection expenses	235,133	235,133	190,332
Loss from sales of available-for-sale financial investments	-	-	8,156
Other operating expenses	1,795,738	1,795,396	536,387
Professional fees	1,206,074	1,205,929	610,663
Property, plant and equipment written-off (Note 21)	9,403	9,403	12,505
Rental of premises	3,241,761	3,241,761	2,852,061
Repairs and maintenance	937,258	937,258	707,817
Safety expenses	885,136	885,136	578,854
Staff costs *	14,327,374	14,327,374	7,116,468
Stationery	863,015	862,934	595,569
Transportation	529,242	529,242	376,989
Travelling expenses	529,460	529,460	601,046
Underwriting provision expense	30,000	30,000	-
Utilities	216,854	216,854	209,499
Withholding tax	171,160	171,160	109,691
	32,545,909	32,545,134	21,241,842
*** Staff costs**			
Salaries, wages and bonus	11,001,548	11,001,548	6,159,386
Contribution to social and health fund	1,181,011	1,181,011	643,445
Pension fund	215,487	215,487	50,150
Staff training	315,801	315,801	190,555
Staff benefits	113,527	113,527	72,932
Share-based payments (Note 33)	1,500,000	1,500,000	-
	14,327,374	14,327,374	7,116,468

12. INCOME TAX EXPENSE

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Current tax			
Current income tax	10,060,294	10,060,136	6,145,111
Deferred tax			
Relating to origination and reversal of temporary differences (Note 24)	(368,766)	(368,766)	-
	9,691,528	**9,691,370**	**6,145,111**

The Group and the Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Group and the Bank are 10% (2010: 10%) for the first MNT 3 billion (2010: MNT 3 billion) of taxable income, and 25% (2010: 25%) on the excess of taxable income over MNT 3 billion (2010: MNT 3 billion). Interest income on domestic government bonds is not subject to income tax. Impairment losses for loans and advances are deductible for income tax purposes.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and the Bank for the year ended 31 December are as follows:

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Profit before taxation	**39,936,237**	**39,935,427**	**26,197,859**
Tax at statutory tax rate of 25%	9,984,059	9,983,857	6,549,465
Effect of income subject to lower tax rate	(450,122)	(450,000)	(450,000)
Effect of income not subject to tax	(835,478)	(835,478)	(289,431)
Effect of expenses not allowable for tax purposes	993,069	992,991	335,077
Tax expense for the year	**9,691,528**	**9,691,370**	**6,145,111**

Deferred tax

The following table shows deferred tax recorded on the statement of financial position and changes recorded in the income tax expense:

	The Group and the Bank		
	Deferred tax liabilities 2011 MNT'000	Deferred tax assets 2011 MNT'000	Income statement 2011 MNT'000
Changes in fair value of embedded derivatives	-	265,797	265,797
Property, plant and equipment -accelerated tax depreciation	-	56,186	56,186
Revaluation of financial investment -held-for-trading	-	63,266	63,266
Revaluation of currency forward contracts	-	1,437	1,437
Impairment loss on financial investment-available-for-sale	-	362,500	362,500
Loans and advances to customers -reversal of credit loss provision	(380,420)	-	(380,420)
	(380,420)	**749,186**	**368,766**

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group and the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the Group and the Bank (after adjusting for interest on the convertible preference shares and interest on the convertible bond, in each case net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Net profit attributable to equity holders of the Group and the Bank	30,244,709	30,244,057	20,052,748
Interest on convertible loans	1,789,383	1,789,383	1,100,197
Net profit attributable to equity holders of the Group and the Bank adjusted for the effect of dilution	**32,034,092**	**32,033,440**	**21,152,945**

	GROUP	BANK	
	2011	2011	2010
Weighted average number of ordinary shares for basic earnings per share	23,466,782	23,466,782	21,934,142
Effect of dilution:			
Convertible loans (Note 28)	7,519,608	7,519,608	5,007,196
Share options	103,854	103,854	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**31,090,244**	**31,090,244**	**26,941,338**
Earnings per share			
Equity holders of the Group and the Bank for the year:			
Basic earnings per share	1,288.83	1,288.80	914.23
Diluted earnings per share	1,030.36	1,030.34	785.15

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

14. CASH AND BALANCES WITH CENTRAL BANK

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Cash on hand	89,428,119	89,428,119	60,555,802
Current account with the central bank	200,449,311	200,449,311	77,498,911
	289,877,430	**289,877,430**	**138,054,713**

Current accounts with The Bank of Mongolia, are maintained in accordance with The Bank of Mongolia's regulations. The balances maintained with The Bank of Mongolia are determined at not less than 11.0% (2010: 5.0 %) of customer deposits for periods of 2 weeks. As at 31 December 2011, the average reserve required by The Bank of Mongolia for that period of 2 weeks was MNT 117,466 million (2010: MNT 30,651 million) for local currency and MNT 77,084 million (2010: MNT 23,845 million) for foreign currency both maintained on current accounts with The Bank of Mongolia.

15. DUE FROM BANKS

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Placements with other banks and financial institutions	177,338,242	177,338,242	240,349,466
Loans and advances	44,544,203	44,544,203	9,549,172
	221,882,445	**221,882,445**	**249,898,638**

Due from banks represent local and foreign currency current accounts and deposits maintained with foreign and local financial institutions.

Loans and advances represent an overnight loan with the maturity of 2 days (2010: 3 days)

In 2010, a placement with another bank and financial institution amounting to MNT 42.50 million was pledged to a bank as security for a loan as disclosed in Note 27.

16. REVERSE REPURCHASE AGREEMENT

As part of the reverse repurchase agreement, the Group and the Bank received MNT 25 billion (2010: MNT 4 billion) The Bank of Mongolia central bank bills. The bills bore a term of 3 to 5 days (2010: 3 days) and matured on 2 January 2012 and 4 January 2012 respectively (2010: 3 January 2011). The fair value of the bills approximated their carrying amount as at 31 December 2011.

17. DERIVATIVE FINANCIAL INSTRUMENTS

The information below shows the fair value of derivative financial instruments together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets. This is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Assets			
- Derivative held for trading - forward foreign currency exchange contract	**–**	**–**	**4,486**
Liabilities			
- Equity and currency derivatives (Note 28)	2,569,321	2,569,321	1,506,132
- Derivative held for trading - forward foreign currency exchange contract	1,264	1,264	-
	2,570,585	**2,570,585**	**1,506,132**
Notional amount			
- Derivative held for trading - Forward foreign currency exchange contract	**8,078,567**	**8,078,567**	**4,032,000**

18. FINANCIAL INVESTMENTS

	GROUP	BANK	
	2011 MNT'000	**2011 MNT'000**	**2010 MNT'000**
Held-for-trading:			
Quoted equity, at fair value	**1,061,151**	**1,061,151**	**345,472**
Available-for-sale:			
Unquoted equities, at cost	642,922	642,922	3,712,922
Quoted equities, at fair value	2,116,018	2,116,018	3,744,408
	2,758,940	**2,758,940**	**7,457,330**
Held-to-maturity:			
The Bank of Mongolia central bank and treasury bills	178,576,862	178,576,862	353,616,082
Government bonds	50,846,777	50,846,777	2,042,400
Promissory notes	72,008,160	72,008,160	-
Quoted equity	2,738,152	2,738,152	-
	304,169,951	**304,169,951**	**355,658,482**

The Bank of Mongolia central bank and treasury bills ("BOM bills") are interest bearing short-term bills issued at a discount. BOM bills amounting to MNT 4.6 billion (2010: MNT 4.6 billion) are pledged to The Bank of Mongolia as security for a loan as disclosed in Note 27. Government bonds are issued by The Ministry of Finance with maturities of less than 2 years, and issued at a discount.

Unquoted available-for-sale equities represent investment made in unquoted companies. Investments in unquoted shares are recorded at cost as the fair value cannot be measured reliably. The variability in the range of reasonable fair value estimates derived from valuation techniques is expected to be significant. There is no market for these investments and the Group and the Bank do not intend to dispose of these investments in the foreseeable future.

Quoted available-for-sale and held-for-trading equities represent investments in several equities quoted on the Mongolia Stock Exchange and Hong Kong Stock Exchange. Quoted held-to-maturity equity represents investment in Trade and Development Bank Bond quoted on the Singapore Exchange Securities Trading Limited.

Promissory notes represent purchase of notes issued by Erdenes MGL LLC and Mongolian Railway (both state owned subsidiaries) with maturities range from 31 to 182 days acquired at a discount.

19. LOANS AND ADVANCES TO CUSTOMERS

	GROUP	BANK	
	2011 MNT'000	**2011 MNT'000**	**2010 MNT'000**
Corporate lending	718,725,829	718,725,829	520,767,630
Small business lending	214,880,294	214,880,294	115,686,204
Consumer lending	126,569,077	126,569,077	66,215,273
Residential mortgages	192,879,826	192,879,826	80,108,644
	1,253,055,026	**1,253,055,026**	**782,777,751**
Accrued interest receivables	12,876,933	12,876,933	12,044,815
Gross loans and advances	1,265,931,959	1,265,931,959	794,822,566
Less: Allowance for impairment losses	(20,012,736)	(20,012,736)	(10,217,619)
Net loans and advances	**1,245,919,223**	**1,245,919,223**	**784,604,947**

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers by type is as follows:

GROUP At 31 December 2011	Corporate lending MNT'000	Small business lending MNT'000	Consumer lending MNT'000	Residential mortgages MNT'000	Total MNT'000
At 1st January 2011	6,696,841	2,353,077	756,209	411,492	10,217,619
Charge for the year	7,615,273	5,252,020	314,041	386,662	13,567,996
Recoveries	(3,877,751)	(190,557)	(262,070)	(617,150)	(4,947,528)
Reclassification	-	-	75,228	-	75,228
Exchange difference	542,762	489,451	32,032	35,176	1,099,421
At 31 December 2011	**10,977,125**	**7,903,991**	**915,440**	**216,180**	**20,012,736**
Individual impairment	4,957,479	5,920,551	-	-	10,878,030
Collective impairment	6,019,646	1,983,440	915,440	216,180	9,134,706
	10,977,125	**7,903,991**	**915,440**	**216,180**	**20,012,736**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**11,515,894**	**11,049,068**	**–**	**–**	**22,564,962**

BANK At 31 December 2011	Corporate lending MNT'000	Small business lending MNT'000	Consumer lending MNT'000	Residential mortgages MNT'000	Total MNT'000
At 1st January 2011	6,696,841	2,353,077	756,209	411,492	10,217,619
Charge for the year	7,615,273	5,252,019	314,041	386,662	13,567,995
Recoveries	(3,877,751)	(190,557)	(262,070)	(617,150)	(4,947,528)
Reclassification	-	-	75,228	-	75,228
Exchange difference	542,762	489,452	32,032	35,176	1,099,422
At 31 December 2011	**10,977,125**	**7,903,991**	**915,440**	**216,180**	**20,012,736**
Individual impairment	4,957,479	5,920,551	-	-	10,878,030
Collective impairment	6,019,646	1,983,440	915,440	216,180	9,134,706
	10,977,125	**7,903,991**	**915,440**	**216,180**	**20,012,736**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**11,515,894**	**11,049,068**	**–**	**–**	**22,564,962**

19. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

Impairment allowance for loans and advances to customers (contd.)

At 31 December 2010	Corporate lending MNT'000	Small business lending MNT'000	Consumer lending MNT'000	Residential mortgages MNT'000	Others MNT'000	Total MNT'000
At 1st January 2010	9,950,883	5,535,479	1,993,320	561,648	73	18,041,403
Charge for the year	2,665,991	287,442	281,862	177,810	-	3,413,105
Recoveries	(1,871,976)	(1,551,464)	(666,014)	(307,953)	-	(4,397,407)
Reclassification	-	-	-	73	(73)	-
Amounts written off	(3,373,570)	(1,690,960)	(844,263)	(3,482)	-	(5,912,275)
Exchange difference	(674,487)	(227,420)	(8,696)	(16,604)	-	(927,207)
At 31 December 2010	**6,696,841**	**2,353,077**	**756,209**	**411,492**	**–**	**10,217,619**
Individual impairment	802,115	737,038	28,441	86,851	-	1,654,445
Collective impairment	5,894,726	1,616,039	727,768	324,641	-	8,563,174
	6,696,841	**2,353,077**	**756,209**	**411,492**	**–**	**10,217,619**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**9,758,334**	**4,094,121**	**148,263**	**581,756**	**–**	**14,582,474**

The fair value of the collateral that the Group and the Bank holds relating to loans individually determined to be impaired at 31 December 2011 amounts to MNT 76.83 billion (2010: MNT 37.12 billion). These values are estimated by the management based on the latest available information. For a more detailed description, see 'Collateral and other credit enhancement' under Note 37.

Collateral repossessed

During the year, there was no repossessed property. In 2010, the Bank took possession of buildings with carrying amounts of MNT 728,992,000. The Group and the Bank were in the process of selling these buildings.

20. INVESTMENT IN A SUBSIDAIRY

	GROUP 2011 MNT'000	BANK 2011 MNT'000	2010 MNT'000
Investment in a subsidiary:			
Unquoted share, at cost	-	100,000	-

Detail of the subsidiary, which is incorporated in Mongolia, is as follows:

	Interest held 2011	2010	Principal activity
Name of subsidiary			
Golomt Securities LLC *	100%	NA	Securities brokerage and dealer

* The Company has not commenced operations during the year ended 31 December 2011

21. PROPERTY, PLANT AND EQUIPMENT

GROUP At 31 December 2011	Buildings MNT'000	Leasehold improvements MNT'000	Office equipment and vehicles MNT'000	Buildings in progress MNT'000	Total MNT'000
At cost					
At 1st January 2011	7,211,281	-	11,939,283	12,369,310	31,519,874
Additions	836,152	-	4,106,972	24,983	4,968,107
Disposals	-	-	(374,380)	-	(374,380)
Transfers	-	-	(4,237)	2,835,011	2,830,774
Write-offs (Note 11)	-	-	(564,144)	-	(564,144)
At 31 December 2011	**8,047,433**	**–**	**15,103,494**	**15,229,304**	**38,380,231**
Accumulated depreciation					
At 1st January 2011	544,728	-	6,466,163	-	7,010,891
Charge for the year (Note 11)	220,898	-	2,428,343	-	2,649,241
Disposals	-	-	(321,785)	-	(321,785)
Transfers	-	-	(3,003)	-	(3,003)
Write-offs (Note 11)	-	-	(554,741)	-	(554,741)
At 31 December 2011	**765,626**	**–**	**8,014,977**	**–**	**8,780,603**
Net carrying amount	**7,281,807**	**–**	**7,088,517**	**15,229,304**	**29,599,628**

BANK At 31 December 2011	Buildings MNT'000	Leasehold improvements MNT'000	Office equipment and vehicles MNT'000	Buildings in progress MNT'000	Total MNT'000
At cost					
At 1st January 2011	7,211,281	-	11,939,283	12,369,310	31,519,874
Additions	836,152	-	4,106,972	24,983	4,968,107
Disposals	-	-	(374,380)	-	(374,380)
Transfers	-	-	(4,237)	2,835,011	2,830,774
Write-offs (Note 11)	-	-	(564,144)	-	(564,144)
At 31 December 2011	**8,047,433**	**–**	**15,103,494**	**15,229,304**	**38,380,231**
Accumulated depreciation					
At 1st January 2011	544,728	-	6,466,163	-	7,010,891
Charge for the year (Note 11)	220,898	-	2,428,343	-	2,649,241
Disposals	-	-	(321,785)	-	(321,785)
Transfers	-	-	(3,003)	-	(3,003)
Write-offs (Note 11)	-	-	(554,741)	-	(554,741)
At 31 December 2011	**765,626**	**–**	**8,014,977**	**–**	**8,780,603**
Net carrying amount	**7,281,807**	**–**	**7,088,517**	**15,229,304**	**29,599,628**

21. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

BANK At 31 December 2010	Buildings MNT'000	Leasehold improvements MNT'000	Office equipment and vehicles MNT'000	Buildings in progress MNT'000	Total MNT'000
At cost					
At 1st January 2010	1,554,232	30,538	10,145,579	-	11,730,349
Additions	5,657,049	-	3,051,134	12,369,310	21,077,493
Disposals	-	-	(113,250)	-	(113,250)
Transfers	-	-	(4,986)	-	(4,986)
Write-offs (Note 11)	-	(30,538)	(1,139,194)	-	(1,169,732)
At 31st December 2010	**7,211,281**	**–**	**11,939,283**	**12,369,310**	**31,519,874**
Accumulated depreciation					
At 1st January 2010	433,918	30,538	5,918,084	-	6,382,540
Charge for the year (Note 11)	110,810	-	1,762,327	-	1,873,137
Disposals	-	-	(87,559)	-	(87,559)
Write-offs (Note 11)	-	(30,538)	(1,126,689)	-	(1,157,227)
At 31st December 2010	**544,728**	**–**	**6,466,163**	**–**	**7,010,891**
Net carrying amount	**6,666,553**	**–**	**5,473,120**	**12,369,310**	**24,508,983**

22. INTANGIBLE ASSETS

	GROUP			BANK	
	Software and Licenses 2011 MNT'000	Web Domain 2011 MNT'000	Total 2011 MNT'000	Software and Licenses 2011 MNT'000	2010 MNT'000
At cost					
At 1st January	4,176,498	-	4,176,498	4,176,498	3,490,343
Addition	113,446	2,408	115,854	113,446	686,155
At 31st December	**4,289,944**	**2,408**	**4,292,352**	**4,289,944**	**4,176,498**
Accumulated amortisation					
At 1st January	3,071,634	-	3,071,634	3,071,634	2,095,012
Charge for the year (Note 11)	574,950	107	575,057	574,950	976,622
At 31st December	**3,646,584**	**107**	**3,646,691**	**3,646,584**	**3,071,634**
Net carrying amount	**643,360**	**2,301**	**645,661**	**643,360**	**1,104,864**

23. OTHER ASSETS

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Other receivables			
- Third parties	3,551,434	3,551,434	2,006,533
- Due from subsidiary	-	3,265	-
Less: Allowance for impairment losses	(690,770)	(690,770)	(628,913)
	2,860,664	**2,863,929**	**1,377,620**
Foreclosed properties	604,029	604,029	728,992
Less: Allowances for impairment losses	(604,029)	(604,029)	(669,510)
	–	**–**	**59,482**
Prepaid expenses	4,039,791	4,039,591	4,267,005
Consumables and other inventories	2,420,773	2,420,773	2,073,209
	6,460,564	**6,460,364**	**6,340,214**
	9,321,228	**9,324,293**	**7,777,316**
Impairment allowance for other receivables			
At 1st January	628,913	628,913	628,801
Charge for the year (Note 9)	60,652	60,652	1,708
Written off	(1,493)	(1,493)	(3,006)
Effect of exchange rate	2,698	2,698	1,410
At 31st December	**690,770**	**690,770**	**628,913**

Impairment allowance for foreclosed properties			
At 1st January	669,510	669,510	2,673
Charge for the year (Note 11)	1,219	1,219	666,837
Recoveries (Note 8)	(66,700)	(66,700)	-
At 31st December	**604,029**	**604,029**	**669,510**

24. DEFERRED TAX ASSETS

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
At 1st January	-	-	-
Recognised in statement of comprehensive income (Note 12)	368,766	368,766	-
At 31 December	**368,766**	**368,766**	**–**

25. DUE TO BANKS

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
Deposits from other banks and financial institutions	9,228,503	9,228,503	80,833,669

Deposits from other banks and financial institutions represent foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks.

26. DUE TO CUSTOMERS

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
Government deposits			
- Current accounts	53,017,887	53,017,887	24,915,848
- Demand deposits	644,815	644,815	10,136,613
- Time deposits	48,170,115	48,170,115	4,756,924
Private sector deposits			
- Current accounts	443,086,800	443,188,291	393,842,596
- Demand deposits	2,981,812	2,981,812	14,962,745
- Time deposits	175,333,043	175,333,043	44,159,811
Individual deposits			
- Current accounts	80,667,448	80,667,448	46,073,147
- Demand deposits	369,678,279	369,678,279	268,326,454
- Time deposits	626,638,128	626,638,128	488,900,858
Other deposits			
- Current accounts	12,582,709	12,582,709	12,617,987
- Demand deposits	1,601,805	1,601,805	1,772,252
- Time deposits	25,632,079	25,632,079	7,034,087
	1,840,034,920	**1,840,136,411**	**1,317,499,322**

Included in 'Due to customers' were deposits of MNT 13.2 billion (2010: MNT 6.10 billion) held as collateral for irrevocable commitments under financial guarantees.

27. BORROWED FUNDS

	GROUP		BANK		
	Effective Interest rate 2011 (%)	2011 MNT'000	Effective Interest rate 2011(%)	2011 MNT'000	2010 MNT'000
Direct Loans:					
EUR 316 thousand floating rate loan due 2011, **	-	-	6.87	-	461,299
MNT 4.6 billion fixed rate loan due 2014, **	9.00	4,714,332	9.00	4,714,332	4,666,500
		4,714,332		**4,714,332**	**5,127,799**
Pass-through Loans:					
MNT 910 million fixed rate loan due 2014, *	6.33-6.80	889,000	6.33-6.80	889,000	903,000
USD 0.6 million floating rate loan due 2014, *	1.48-1.52	838,537	1.48-1.52	838,537	753,882
USD 232.1 thousand fixed rate loan due 2019, *	2.00	324,095	2.00	324,095	53,572
USD 0.2 million fixed rate loan due 2019, *	2.00	217,283	2.00	217,283	229,771
USD 3.2 million floating rate loan due 2013, *	1.40-1.46	4,501,538	1.40-1.46	4,501,538	2,056,888
MNT 2.8 billion floating rate loan due 2019, *	4.00-4.50	7,754,102	4.00-4.50	7,754,102	5,802,623
MNT 1.2 billion fixed rate loan due 2011, *	10.00	353,300	10.00	353,300	239,400
MNT 3.9 billion fixed rate loan due 2019, *	7.00	3,816,187	7.00	3,816,187	3,798,568
Asian Development Bank floating rate loan, *	7.69-8.80	2,968,866	7.69-8.80	2,968,866	3,519,160
USD 0.84 million fixed rate loan due 2011, *	-	-	-	-	536,029
MNT 4.4 billion fixed rate loan due 2014 *	1.20	14,629,433	1.20	14,629,433	4,365,900
MNT 1.0 billion fixed rate loan due 2014 *	3.60	7,096,766	3.60	7,096,766	1,000,000
USD 1.4 million free rate loan due 2017 *	-	1,954,918	-	1,954,918	-
MNT 11.2 billion free rate loan due 2016 *	-	11,230,000	-	11,230,000	-
USD 1.3 million floating rate loan *	4.30-4.35	1,839,110	4.30-4.35	1,839,110	-
		58,413,135		**58,413,135**	**23,258,793**
Total		**63,127,467**		**63,127,467**	**28,386,592**

* Unsecured
** Secured

The EUR316 thousand floating rate loan due in 2011 was secured on a placement with an other bank and financial institution as referred to in Note 15.

The MNT4.6 billion fixed rate loan due in 2014 is secured by The Bank of Mongolia central bank bills as referred to in Note 18.

Asian Development Bank

The loan was disbursed to housing loan borrowers. The interest rate ranged from 7.69% to 8.80% (2010: 7.69% to 8.80%) per annum respectively. Terms of repayment and maturity dates of the loan are in accordance with the various repayment schedules.

The Group and the Bank have not had any default of principal, interest or other breaches with respect to its borrowed funds during the year.

28. SUBORDINATED LOANS

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Subordinated convertible loan from Credit Suisse	13,852,295	13,852,295	12,500,780
Subordinated convertible loan from Stanhope Investments	34,012,319	34,012,319	29,939,963
	47,864,614	**47,864,614**	**42,440,743**

28. SUBORDINATED LOANS (CONTD.)

Subordinated convertible loan from Credit Suisse

The Bank received a USD10 million 5-year subordinated convertible loan from Credit Suisse, Singapore Branch in 2007 which was amended on 19 December 2008 with revised principal terms as follows:

(a) Conversion option - Credit Suisse has the option at any time during the loan life to convert the loan into new ordinary shares of MNT1,000 each of the Bank at a fixed exchange rate of MNT1,170.79 and a Strike Price comprising the lower of MNT4,848.49 or the subscription price in any qualifying Initial Public Offer ("IPO") less any dividends as at the conversion date.

(b) The loan bears interest at 2.5% above 3 months' LIBOR, payable quarterly.

Subordinated convertible loan from Stanhope Investments

On 8 June 2010, the Bank received a USD 25 million 5-year subordinated convertible loan from Stanhope Investments, a wholly owned subsidiary of Abu Dhabi Investment Council, with the following principal term:

(a) Conversion option - Stanhope Investments has the option at any time during the loan life to convert the loan into new ordinary shares of MNT1,000 each of the Bank at a Strike Price comprising the lower of MNT6,838.44 or the subscription price in any qualifying Initial Public Offer ("IPO") less any dividends as at the conversion date.

(b) The loan bears interest at 4.5% above LIBOR, payable quarterly.

The gross proceeds received (net of transaction costs) from the issue of the convertible loans were split into their liability and embedded derivative components. The fair values of the embedded equity and currency derivatives were priced using a standard option pricing model based on market values and the Group and the Bank's assumptions. The residual value, after considering the values of the embedded derivatives, was assigned to the host liability.

	Liability component MNT'000	Embedded derivative component (Note 17) MNT'000	Total MNT'000
GROUP			
At 31 December 2011	47,864,614	2,569,321	50,433,935
BANK			
At 31 December 2011	47,864,614	2,569,321	50,433,935
At 31st December 2010	42,440,743	1,506,132	43,946,875

29. OTHER LIABILITIES

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Payables	8,751,192	8,751,192	5,065,653
Foreign and domestic remittances held over	1,129,000	1,129,000	749,436
Clearing settlement held over	15,636,528	15,636,528	10,819,970
Deferred income	687,638	687,638	1,522,424
	26,204,358	**26,204,358**	**18,157,483**

Deferred income represents loan interest received in advance from the Ministry of Food and Agriculture to subsidise part of the interest charged on Agriculture Support Funds disbursed by the Group and the Bank to qualified borrowers.

30. ORDINARY SHARES

	GROUP		BANK			
	Number of shares 2011	Amount 2011 MNT'000	Number of shares 2011	2010	Amount 2011 MNT'000	2011 MNT'000
Authorised						
Ordinary shares MNT 1,000 each	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000
Issued and fully paid						
At 1st January	21,934,142	21,934,142	21,934,142	21,934,142	21,934,142	21,934,142
Issued during the year	2,657,401	2,657,401	2,657,401	-	2,657,401	-
At 31st December	**24,591,543**	**24,591,543**	**24,591,543**	**21,934,142**	**24,591,543**	**21,934,142**

On 2 June 2011, 2,632,551 fully paid shares of the Bank of MNT1,000 each were issued to SWISS-MO Investment AG for cash at a subscription price of MNT 9,461.01 per share. The share premium of MNT 22,274,449,000 arising from the issuance of ordinary shares has been included in the share premium account.

Between 7 November 2011 and 21 November 2011, 24,850 fully paid shares of the Bank of MNT 1,000 each were issued for cash on exercise of employee share options at the exercise price of MNT 3,834 per share. The share premium of MNT 70,424,900 arising from the issuance of ordinary shares has been included in the share premium account.
The new ordinary shares issued rank pari passu in all respect with the existing ordinary shares of the Group and the Bank.

Share option scheme

The Bank has a share option scheme under which options to subscribe for the Bank's shares have been granted to executives and employees at all levels throughout the Group and the Bank (Note 33).

31. CASH AND CASH EQUIVALENTS

	Notes	GROUP 2011 MNT'000	BANK 2011 MNT'000	2010 MNT'000
Cash and balances with central bank	14	289 877 430	289 877 430	138 054 713
Due from banks	15	221 882 445	221 882 445	249 898 638
Reverse repurchase agreement	16	24 979 395	24 979 395	3 997 668
The Bank of Mongolia central bank and treasury bills	18	178 576 862	178 576 862	353 616 082
Government bond	18	3 049 096	3 049 096	-
Promissory notes	18	72 008 160	72 008 160	-
		790 373 388	**790 373 388**	**745 567 101**
Less: Minimum reserve with The Bank of Mongolia not available to finance the Group and the Bank's day to day operations (refer Note 14)		(194 549 210)	(194 549 210)	(54 495 600)
Total cash and cash equivalents		**595 824 178**	**595 824 178**	**691 071 501**

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group and the Bank use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

GROUP **At 31 December 2011**	**Level 1** **MNT'000**	**Level 2** **MNT'000**	**Level 3** **MNT'000**	**Total** **MNT'000**
Financial assets				
Financial investment held-for-trading				
Quoted equity	1,061,151	-	-	1,061,151
Financial investments available-for-sale				
Unquoted equities	-	-	642,922	642,922
Quoted equities	2,116,018	-	-	2,116,018
Total	**3,177,169**	**–**	**642,922**	**3,820,091**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	2,569,321	2,569,321
Forward foreign exchange contract	-	1,264	-	1,264
Total	**–**	**1,264**	**2,569,321**	**2,570,585**

BANK **At 31 December 2011**	**Level 1** **MNT'000**	**Level 2** **MNT'000**	**Level 3** **MNT'000**	**Total** **MNT'000**
Financial assets				
Financial investment held-for-trading				
Quoted equity	1,061,151	-	-	1,061,151
Financial investments available-for-sale				
Unquoted equities	-	-	642,922	642,922
Quoted equities	2,116,018	-	-	2,116,018
Total	**3,177,169**	**–**	**642,922**	**3,820,091**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	-	-	2,569,321	2,569,321
Forward foreign exchange contract	-	1,264	-	1,264
Total	**–**	**1,264**	**2,569,321**	**2,570,585**

BANK At 31 December 2010	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contract	-	4,486	-	4,486
Financial investment held-for-trading				
Quoted equity	345,472	-	-	345,472
Financial investment available-for-sale				
Unquoted equities	-	-	3,712,922	3,712,922
Quoted equities	3,744,408	-	-	3,744,408
Total	**4,089,880**	**4,486**	**3,712,922**	**7,807,288**
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	**–**	**–**	**1,506,132**	**1,506,132**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group and the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Equity and currency derivatives

Equity and currency derivatives products are valued using a valuation technique with non-market observable inputs. These derivatives are valued using valuation model taking into account prevailing risk-free interest, the volatility of foreign exchange rates and share price, the estimated spot price and term to maturity.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial asset and liability which are recorded at fair value:

GROUP	At 1st January 2011 MNT'000	Total losses recorded in profit or loss MNT'000	Purchases/ Sales MNT'000	At 31st December 2011 MNT'000
Financial asset				
Financial investments available-for-sale				
Unquoted equities	3,712,922	-	(3,070,000)	642,922
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	(1,506,132)	(1,063,189)	-	(2,569,321)
Total level 3 financial liability	**(1,506,132)**	**(1,063,189)**	**–**	**(2,569,321)**

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Movements in level 3 financial instruments measured at fair value (contd.)

BANK	At 1st January 2011 MNT'000	Total losses recorded in profit or loss MNT'000	Purchases/ Sales MNT'000	At 31st December 2011 MNT'000
Financial asset				
Financial investments available-for-sale				
Unquoted equities	3,712,922	-	(3,070,000)	642,922
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	(1,506,132)	(1,063,189)	-	(2,569,321)
Total level 3 financial liability	**(1,506,132)**	**(1,063,189)**	**–**	**(2,569,321)**

	At 1st January 2010 MNT'000	Total losses recorded in profit or loss MNT'000	Purchases/ Sales MNT'000	At 31st December 2010 MNT'000
Financial asset				
Financial investments available-for-sale				
Unquoted equities	837,370	-	2,875,552	3,712,922
Financial liability				
Derivative financial instruments				
Equity and currency derivatives	(381,425)	45,769	(1,170,476)	(1,506,132)
Total level 3 financial liability	**(381,425)**	**45,769**	**(1,170,476)**	**(1,506,132)**

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	GROUP	BANK	
	2011 Unrealised losses MNT'000	2011 Unrealised losses MNT'000	2010 Unrealised gains MNT'000
Total (losses) or gains included in the profit or loss for the year	(1,063,189)	(1,063,189)	45,769

Transfers between level 1 and 2

There were no transfers between level 1 to level 2 of the fair value hierarchy for the financial assets and liabilities which are recorded at fair value.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument.

	GROUP		BANK			
	31 December 2011		31 December 2011		31 December 2010	
	Carrying amount MNT'000	Effect of reasonably possible alternative assumptions MNT'000	Carrying amount MNT'000	Effect of reasonably possible alternative assumptions MNT'000	Carrying amount MNT'000	Effect of reasonably possible alternative assumptions MNT'000
Financial asset						
Financial investments available-for-sale						
Unquoted equities	642,922	-	642,922	-	3,712,922	-
Financial liability						
Derivative financial instruments						
Equity and currency derivatives	(1,871,136)	698,185	(1,871,136)	698,185	(2,059,699)	(553,567)

In order to determine reasonably possible alternative assumptions the Group and the Bank has applied certain unobservable data inputs to the equity and currency option, which includes the current share price and risk free rate in Mongolia. The adjustment made was to increase or decrease the assumptions used in the valuation model within a range of between 2.5% and 6.0%.

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposits and variable rate financial instruments. Based on fair value assessments performed by the management, the estimated fair values due from banks of more than one year as disclosed in Note 35 approximate their carrying amounts as shown in the balance sheet. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group and the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non financial assets and non financial liabilities.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Fixed rate financial instruments (contd.)

GROUP As at 31 December 2011	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with central bank	14	289,877,430	289,877,430
Due from banks	15	221,882,445	221,882,445
Reverse repurchase agreement	16	24,979,395	24,979,395
Financial investments - held-to-maturity			
The Bank of Mongolia central bank and treasury bills	18	178,576,862	178,576,862
Unquoted government bonds	18	50,846,777	50,846,777
Promissory notes	18	74,746,312	74,746,312
Loans and advances to customers	19	1,245,919,223	1,469,319,743
Other receivables	23	2,860,664	2,860,664
		2,089,689,108	2,313,089,628
Financial liabilities			
Due to banks	25	9,228,503	9,228,503
Due to customers	26	1,840,034,920	1,840,034,920
Borrowed funds	27	63,127,467	54,275,492
Subordinated loans	28	47,864,614	47,864,614
Other liabilities, excluding deferred income	29	25,516,720	25,516,720
		1,985,772,224	1,985,772,224

BANK As at 31 December 2011	Note	Carrying amount MNT'000	Fair value MNT'000
Financial assets			
Cash and balances with central bank	14	289,877,430	289,877,430
Due from banks	15	221,882,445	221,882,445
Reverse repurchase agreement	16	24,979,395	24,979,395
Financial investments - held-to-maturity			
The Bank of Mongolia central bank and treasury bills	18	178,576,862	178,576,862
Unquoted government bonds	18	50,846,777	50,846,777
Promissory notes	18	74,746,312	74,746,312
Loans and advances to customers	19	1,245,919,223	1,469,319,743
Other receivables	23	2,863,929	2,863,929
		2,089,692,373	**2,313,092,893**
Financial liabilities			
Due to banks	25	9,228,503	9,228,503
Due to customers	26	1,840,136,411	1,840,136,411
Borrowed funds	27	63,127,467	54,275,492
Subordinated loans	28	47,864,614	47,864,614
Other liabilities, excluding deferred income	29	25,516,720	25,516,720
		1,985,873,715	**1,985,873,715**
At 31st December 2010			
Financial assets			
Cash and balances with central bank	14	138,054,713	138,054,713
Due from banks	15	249,898,638	249,898,638
Financial investments - held-to-maturity			
The Bank of Mongolia central bank and treasury bills	18	353,616,082	353,616,082
Unquoted government bonds	18	2,042,400	2,042,400
Loans and advances to customers	19	784,604,947	788,723,379
Other receivables	23	1,377,620	1,377,620
		1,529,594,400	**1,533,712,832**
Financial liabilities			
Due to banks	25	80,833,669	80,833,669
Due to customers	26	1,317,499,322	1,317,499,322
Borrowed funds	27	28,386,592	26,974,936
Subordinated loans	28	42,440,743	42,440,743
Other liabilities, excluding deferred income	29	16,635,059	16,635,059
		1,485,795,385	**1,485,795,385**

33. SHARE–BASED PAYMENT

The expense recognised for employee services received during the year is shown in the following table:

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Expense arising from equity—settled share—based option transactions	1,500,000	1,500,000	-
Total expense arising from share—based option transactions (see Note 11)	1,500,000	1,500,000	-

The share—based payment plan is described below. There have been no cancellations or modifications to the plan during 2011.

Executives and Employees share-option plan

The Bank granted 523,000 share options on 12 April 2011 to both executives and other employees at all levels with more than 5 years of service at the date of grant. The exercise price of the option was MNT 3,834 which was equal to the net assets per share on the last day of the preceding financial year with respect to which the options were granted. The options vested immediately on the date of grant. The contractual life of each option granted is 3 years. There are no cash settlement alternatives.

The fair value of the options is estimated at the grant date using a binomial pricing model, taking into accounts the terms and conditions upon which the instruments were granted.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	GROUP		BANK			
	No.	2011 WAEP MNT	No.	2011 WAEP MNT	No.	2010 WAEP MNT
Outstanding at the beginning of the year	-	-	-	-	-	-
Granted during the year	523,000	3,834	523,000	3,834	-	-
Exercised during the year	(24,850)	3,834	(24,850)	3,834	-	-
Outstanding at the end of the year	**498,150**	**3,834**	**498,150**	**3,834**	**–**	**–**

The weighted average remaining contractual life for the share options outstanding at 31 December 2011 was 2.28 years (2010: Nil).

The weighted average fair value of options granted during the year was MNT 3,317 (2010: Nil).

The following table lists the inputs to the model used for equity-settled options for the years ended 31 December 2011 and 2010.

	GROUP	BANK	
	2011	2011	2010
Current share price (MNT)	6,158	6,158	-
Exercise price (MNT)	3,834	3,834	-
Dividend yield (%)	-	-	-
Expected volatility (%)	5.195	5.195	-
Risk-free interest rate (%)	10	10	-
Expected life of option (years)	3	3	-

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grants were incorporated into the measurement of fair value.

34. CONTINGENT LIABILITIES, COMMITMENTS AND LEASE ARRANGEMENTS

To meet the financial needs of customers, the Group and the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group and the Bank.

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Contingent liabilities			
Financial guarantees	13,511,110	13,511,110	8,977,329
Letters of credit	35,327,296	35,327,296	26,818,480
Performance guarantees	79,426,228	79,426,228	47,908,177
	128,264,634	**128,264,634**	**83,703,986**
Commitments			
Undrawn commitments to lend	29,804,038	29,804,038	27,142,064
Total	**158,068,672**	**158,068,672**	**110,846,050**

Contingent liabilities

Letters of credit and guarantees (including standby letters of credit) commit the Group and the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same risk as loans even though they are of a contingent nature. No material losses are anticipated as a result of these transactions.

Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since commitments to extend credit are contingent upon customers maintaining specific standards. The Group and the Bank monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

34. CONTINGENT LIABILITIES, COMMITMENTS AND LEASE ARRANGEMENTS (CONTD.)

Other commitments

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Approved and contracted for:			
Property, plant and equipment	234,157	234,157	733,897
Intangible assets	214,573	214,573	33,253
Buildings in progress	8,000	8,000	-
	456,730	**456,730**	**767,150**

Operating lease commitments – Bank as lessee

The Group and the Bank as lessee have entered into operating leases of various buildings under cancellable operating lease agreements. The Group and the Bank are required to give a month's notice for the termination of those agreements. The leases have no renewal option, purchase option or escalation clauses included in the agreements. There are no restrictions placed upon the Group and the Bank by entering these leases.

Operating lease commitments – Bank as lessor

The Group and the Bank act as the lessor of a building and garage. These leases have life of one year with renewal option included in the contracts. There are no restrictions placed upon the lessor by entering into these leases.

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. The Group and the Bank have an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group and the Bank make adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Group and the Bank had no unresolved legal claims.

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 37.3 'Liquidity risk and funding management' for the Group and the Bank's contractual repayment obligations.

GROUP As at 31 December 2011	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and balances with central bank	289,877,430	-	289,877,430
Due from banks	221,882,445	-	221,882,445
Reverse repurchase agreement	24,979,395	-	24,979,395
Financial investments -			
- held-for-trading	1,061,151	-	1,061,151
- available-for-sale	2,758,940	-	2,758,940
- held-to-maturity	275,927,844	28,242,107	304,169,951
Loans and advances to customers	431,994,493	813,924,730	1,245,919,223
Other receivables	2,860,664	-	2,860,664
	1,251,342,362	**842,166,837**	**2,093,509,199**
Non financial assets			
Property, plant and equipment	-	29,599,628	29,599,628
Intangible assets	-	645,661	645,661
Other assets	-	6,460,564	6,460,564
Deferred tax assets	-	749,186	749,186
	-	37,455,039	37,455,039
Total	**1,251,342,362**	**879,621,876**	**2,130,964,238**
Financial liabilities			
Due to banks	9,228,503	-	9,228,503
Due to customers	1,824,419,610	15,615,310	1,840,034,920
Derivative financial instruments	8,245	2,562,340	2,570,585
Borrowed funds	5,803,873	57,323,594	63,127,467
Subordinated loans	12,955,364	34,909,250	47,864,614
Other liabilities	25,514,073	2,647	25,516,720
	1,877,929,668	**110,413,141**	**1,988,342,809**
Non financial liabilities			
Deferred income	687,638	-	687,638
Deferred tax liabilities	-	380,420	380,420
Current tax liabilities	1,338,671	-	1,338,671
	2,026,309	**380,420**	**2,406,729**
Total	**1,879,955,977**	**110,793,561**	**1,990,749,538**
Net	**(628,613,615)**	**768,828,315**	**140,214,700**

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

BANK As at 31 December 2011	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and balances with central bank	289,877,430	-	289,877,430
Due from banks	221,882,445	-	221,882,445
Reverse repurchase agreement	24,979,395	-	24,979,395
Financial investments -			
- held-for-trading	1,061,151	-	1,061,151
- available-for-sale	2,758,940	-	2,758,940
- held-to-maturity	275,927,844	28,242,107	304,169,951
Loans and advances to customers	431,994,493	813,924,730	1,245,919,223
Other receivables	2,863,929	-	2,863,929
	1,251,345,627	**842,166,837**	**2,093,512,464**
Non financial assets			
Investment in a subsidiary	-	100,000	100,000
Property, plant and equipment	-	29,599,628	29,599,628
Intangible assets	-	643,360	643,360
Other assets	-	6,460,364	6,460,364
Deferred tax assets	-	749,186	749,186
	–	**37,552,538**	**37,172,118**
Total	**1,251,345,627**	**879,719,375**	**2,131,065,002**
Financial liabilities			
Due to banks	9,228,503	-	9,228,503
Due to customers	1,824,521,101	15,615,310	1,840,136,411
Derivative financial instruments	8,245	2,562,340	2,570,585
Borrowed funds	5,803,873	57,323,594	63,127,467
Subordinated loans	12,955,364	34,909,250	47,864,614
Other liabilities	25,514,073	2,647	25,516,720
	1,878,031,159	**110,413,141**	**1,988,444,300**
Non financial liabilities			
Deferred income	687,638	-	687,638
Deferred tax liabilities	-	380,420	380,420
Current tax liabilities	1,338,596	-	1,338,596
	2,026,234	**380,420**	**2,406,654**
Total	**1,880,057,393**	**110,793,561**	**1,990,850,954**
Net	**(628,711,766)**	**768,925,814**	**140,214,048**

BANK As at 31 December 2010	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
Financial assets			
Cash and balances with central bank	138,054,713	-	138,054,713
Due from banks	249,856,142	42,496	249,898,638
Reverse repurchase agreement	3,997,668	-	3,997,668
Derivative financial instruments	4,486	-	4,486
Financial investments -			
- held-for-trading	345,472	-	345,472
- available-for-sale	7,457,330	-	7,457,330
- held-to-maturity	355,658,482	-	355,658,482
Loans and advances to customers	324,872,400	459,732,547	784,604,947
Other receivables	1,377,620	-	1,377,620
	1,081,624,313	**459,775,043**	**1,541,399,356**
Non financial assets			
Property, plant and equipment	-	24,508,983	24,508,983
Intangible assets	-	1,104,864	1,104,864
Other assets	-	6,399,696	6,399,696
	–	**32,013,543**	**32,013,543**
Total	**1,081,624,313**	**491,788,586**	**1,573,412,899**
Financial liabilities			
Due to banks	80,833,669	-	80,833,669
Due to customers	1,314,660,351	2,838,971	1,317,499,322
Derivative financial instruments	-	1,506,132	1,506,132
Borrowed funds	3,930,557	24,456,035	28,386,592
Subordinated loans	98,330	42,342,413	42,440,743
Other liabilities	16,635,059	-	16,635,059
	1,416,157,966	**71,143,551**	**1,487,301,517**
Non financial liabilities			
Deferred income	1,522,424	-	1,522,424
Current tax liabilities	791,405	-	791,405
	2,313,829	-	2,313,829
Total	**1,418,471,795**	**71,143,551**	**1,489,615,346**
Net	**(336,847,482)**	**420,645,035**	**83,797,553**

36. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

As at 31st December, the Group and the Bank had the following balances and transactions with related parties, which are companies in which the Members of the Board of Governors have substantial financial interest, or constitute Members of the Board of Governors and key management executives.

36. RELATED PARTY DISCLOSURES (CONTD.)

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
a) Loans and advances to related companies:			
Fellow subsidiaries	14,913,435	14,913,435	8,616,558
Members of the Board of Governors and key management personnel of the Bank	283,245	283,245	111,125
	15,196,680	**15,196,680**	**8,727,683**

The loans and advances to fellow subsidiaries, Members of the Board of Governors and key management personnel were secured, bore interest rates from 6.00% to 21.60% (2010: 6.00% to 24.00%) per annum and are repayable within one to six years. The interest income received from such loans during the financial year amounted to MNT 2,318.15 million (2010: MNT 1,366.74 million).

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
b) Deposits from related companies:			
Holding company	9,086,874	9,086,874	85,522
Fellow subsidiaries	8,574,602	8,574,602	3,379,024
Subsidiary	-	101,491	-
	17,661,476	**17,762,967**	**3,464,546**
Members of the Board of Governors and key management personnel of the Bank	507,160	507,160	211,664
	18,168,636	**18,270,127**	**3,676,210**

The deposits from the above related companies, Members of the Board of Governors and key management personnel bore interest rates from 0% to 13.44% (2010: 0% to 10.80%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 135.25 million (2010: MNT 143.73 million).

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
c) Purchase of computers and software from fellow subsidiaries	989,927	989,927	335,569

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
d) Purchase of buildings from related companies:			
Holding company	-	-	5,613,216
Fellow subsidiaries	2,116,163	2,116,163	12,369,310
	2,116,163	**2,116,163**	**17,982,526**

	GROUP	BANK	
	2011	**2011**	**2010**
	MNT'000	**MNT'000**	**MNT'000**
e) Compensation of key management personnel			
Short-term employee benefits			
Salaries	468,935	468,935	299,054
Contribution to social and health fund	68,726	68,726	36,567
Share-based payment	207,935	207,935	-
	745,596	**745,596**	**335,621**

f) Lease agreement with Bodi International Co. Limited

In November 2002, the Group and the Bank moved to its Head Office located at 3 Sukhbaatar Square, Ulaanbaatar, Mongolia and in October 2009, the Group and the Bank opened a new Moscow Branch located at Bayangol District. These buildings are owned by the holding company, Bodi International Co. Limited. On 5 October 2010, the Group and the Bank purchased the Moscow Branch from the holding company as referred to Note 36(d).

In 2009, the Group and the Bank entered into lease agreements for its Head Office and Moscow Branch for 5 years until 1 January 2014 and 1 October 2014 respectively. The Group and the Bank prepaid the lease payment amounting to MNT3.9 billion and MNT885.60 million respectively in 2009. As at 31st December 2011, the balance of prepayment is MNT 1.6 billion (2010: MNT2.4 billion). Further details of the lease arrangements are disclosed in Note 34.

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose in the ordinary course of business. The interest rates payable to and receivable from related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Group and the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2010: Nil).

37. RISK MANAGEMENT

37.1 Introduction

The main risks inherent in the Group and the Bank's operations are credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk, all of which are controlled by the Group and the Bank's Credit and Risk Management Divisions with both independent units reporting directly to the Chief Executive Officer. The primary goal of risk management is to allocate capital to business segments commensurate with their intrinsic risk/reward profiles and to maximise the Group and the Bank's risk-adjusted return on capital through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group and the Bank's continuing profitability and each individual within the Group and the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group and the Bank's strategic planning process.

Risk Management Structure

The Board of Governors is ultimately responsible for identifying and controlling risks which obligation is fulfilled through the medium of delegated authority to subordinate bodies responsible for managing and monitoring designated elements of overall risk exposure.

37. RISK MANAGEMENT (CONTD.)

37.1 Introduction (contd.)

Board of Governors

The Board of Governors is responsible for the overall risk management approach and for approving the risk strategies and principles that establish the objectives guiding all the Group and the Bank's activities and implement the necessary policies and procedures. The risk strategy, including all significant risk policies, is approved and periodically (at least annually) reviewed by the Board of Governors.

Audit Committee

The Audit Committee of the Board of Governors is responsible for overseeing the activities of the Internal Audit Division and the appointment and oversight of the External Auditors as well as all audit related issues impacting the business and operations of the Bank.

Risk Committee

The Risk Management Committee assists the Board of Governors in monitoring and controlling the risk exposures of the Bank. The Risk Management Committee has the following principle responsibilities:

(i) to identify and recommend all actual or potential risks that may be incurred in the all business and operations of the Bank (loan risk, market risk, liquidity risk, operational risk, legal, business reputation and others) and giving directives on the implementation of measures to mitigate such risks as well as those addressing potential improvements in the controls and risk management policies of the Bank;

(ii) to give directions on particular sectoral, industrial, geographic or product exposures;

(iii) to provide the BoG with all necessary information and supporting data addressing banking sector risks;

(iv) to approve the Bank's policy on Anti-Money Laundering and Terrorism financing and its implementation and review the quarterly reports;

(v) to review the Risk Management Division quarterly reports; and

(vi) to review quarterly compliance reports.

Asset and Liability Committee ('ALCO')

This Management Committee has the overall responsibility for the development of the risk strategy, making recommendation to the Board of Governors and Risk Committee of the Board and, once approved, implementing principles, frameworks, policies and limits relating to interest rate, liquidity and market risks.

Credit Committee

The Credit Committee is responsible directly to the Board of Governors. It is the credit decision making body of the Group and the Bank and operates within clearly defined parameters authorised by the Board of Governors. The Committee has the following main functions:

(i) approval of clearly defined Credit Policies and Procedures and amendments and updates;

(ii) approval of risk classification and provisioning levels;

(iii) review of the quality, composition and risk profile of the entire credit portfolio on an ongoing basis; and

(iv) approval of credit limits applicable in exposures to industrial sectors and geographical regions.

Risk Management Division

The Risk Management Division is responsible for implementing and maintaining risk related policies and procedures to ensure an independent control process.

The Division is responsible for monitoring compliance with risk principles, policies and limits, across the Group and the Bank. Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring of risk exposures against limits and the assessment of risks for new products and structured transactions. This Division also ensures the complete capture of all exposure and contingent commitments within risk management and reporting system.

Credit Division

The Credit Division is responsible for ensuring the management of and implementation of the Bank's credit policy in all level through its three departments with specific responsibilities defined as below:

Corporate banking department and SME department

(i) To conduct credit analysis and research;

(ii) To introduce loan proposals to the credit committee and for determination;

(iii) To monitor adherence to debt service schedule and compliance with all conditionality; and

(iv) To oversee effective recovery of all credit outstandings.

Monitoring department

(i) To ensure rigid implementation of the credit policy and objectives; and

(ii) To oversee and support branch credit operations.

Expert department

(i) To provide independent professional advice to underpin analysis of business plan and collateral appraisal in their specific sector of industrial expertise.

Internal Audit

Risk management processes throughout the Group and the Bank are audited at least annually by the Internal Audit function that examines both the adequacy of the procedures and the Group and the Bank's compliance with established policies and procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Operations Committee, Executive Committee and the Audit Committee commensurate with the significance of the issues identified.

Risk Measurement and Reporting Systems

The Group and the Bank's risks are measured by methodology which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. These analytical models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Group and the Bank also run anticipated worse case scenarios that could arise in the event that extreme events which are deemed unlikely to occur do, in fact, transpire.

Monitoring and controlling risks is primarily performed based on limits established by the Group and the Bank. These limits reflect the business strategy and market environment of the Group and the Bank as well as the level of risk that the Group and the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Group and the Bank monitor and measure the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

37. RISK MANAGEMENT (CONTD.)

37.1 Introduction (contd.)

Information compiled from all the Bank's business divisions is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Governors, the ALCO and Credit Committee, and the head of each business division. These reports include assessment of aggregate credit exposure, credit metric forecasts, VaR, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry and customer risks takes place. Senior management assesses the appropriateness of provisions for credit losses on at least a quarterly basis. Both Risk and Audit Committee receive comprehensive risk reports once a quarter designed to provide all the necessary information to assess, review and compute the aggregate risk exposure of the Group and the Bank.

For all levels throughout the Group and the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to all requisite up-to-date information through the Bank's integrated data management and reporting policies.

A monthly briefing is given to the Executive and ALCO Committees on the utilisation of market limits, analysis of VaR and liquidity, plus all other salient risk developments.

Risk Mitigation

As part of its overall risk management, the Group and the Bank uses VaR and basis sensitivity analysis to manage exposures resulting from perceived changes in interest rates, foreign currencies, credit risks, and exposures. The Group and the Bank actively takes collateral subject to significant positive margins to reduce its credit risks.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic features that could cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group and the Bank's resilience to adverse developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group and the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, the Bank and The Bank of Mongolia (the Central Bank) set limitation standards as follows:

(i) the maximum amount of the overall credit exposures issued and other credit-equivalent assets to an individual and his/her related persons shall not exceed 20% of the capital of the Bank; and

(ii) the maximum amount of the credit exposure issued and other credit-equivalent assets shall not exceed 5% of the capital for any single person related to the Group or the Bank, and the aggregation of overall lending to related persons shall not exceed 20% of the capital of the Bank.

37.2 Credit risk

Credit risk is the risk that the Group and the Bank could incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group and the Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group and the Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns to each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group and the Bank to assess the potential loss as a result of the perceived risks to which it is exposed and take corrective action.

It is the responsibility of the controlling unit continuously to examine, design and improve the quality of standardised formats and reports to ensure that the Group and the Bank's ability to manage, monitor and control its lending activities.

As an ongoing element of the continuous development of a prudent credit culture within the Group and the Bank, the Credit Risk Management Division is responsible for the formation of a knowledge pool combining experience and expertise within the Group and the Bank together with establishment and implementation of a Credit Training Plan in conjunction with the Human Resource Department. This is an ongoing process which is reviewed annually to ensure that the Group and the Bank's requirements are fully addressed and that any identified skill, shortages or knowledge deficiencies are satisfied.

Credit-related Commitments Risks

The Group and the Bank makes available to its customers guarantees which may require that the Group and the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the particular letters of guarantee. They expose the Group and the Bank to similar risks to loans which risks are mitigated to the greatest extent possible by the same control processes and policies.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group and the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Notes	GROUP Gross maximum exposure 2011 MNT'000	BANK Gross maximum exposure 2011 MNT'000	BANK Gross maximum exposure 2010 MNT'000
Cash and balances with central bank (excluding cash on hand)	14	200,449,311	200,449,311	77,498,911
Due from banks	15	221,882,445	221,882,445	249,898,638
Reverse repurchase agreement	16	24,979,395	24,979,395	3,997,668
Derivative financial instruments	17	-	-	4,486
Financial investments - held-to-maturity	18	304,169,951	304,169,951	355,658,482
Loans and advances to customers	19	1,245,919,223	1,245,919,223	784,604,947
Other receivables	23	2,860,664	2,863,929	1,377,620
Total		**2,000,260,989**	**2,000,264,254**	**1,473,040,752**
Contingent liabilities	34	128,264,634	128,264,634	83,703,986
Commitments	34	29,804,038	29,804,038	27,142,064
Total		**158,068,672**	**158,068,672**	**110,846,050**
Total credit risk exposure		**2,158,329,661**	**2,158,332,926**	**1,583,886,802**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, reference should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

37. RISK MANAGEMENT (CONTD.)

37.2 Credit risk (contd.)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty which is a related person as at 31 December 2011 was MNT 37,812 million (2010: MNT 35,932 million).

Apart from deposits and placements with other banks and financial institutions amounting to MNT 219,684 million (2010: MNT 189,727 million), all banking assets and liabilities were geographically concentrated in Mongolia.

An industry sector analysis of the Group and the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	GROUP	BANK	
	Gross maximum exposure 2011 MNT'000	Gross maximum exposure 2011 MNT'000	Gross maximum exposure 2010 MNT'000
Agriculture	24,567,603	24,567,603	18,957,486
Construction	69,623,131	69,623,131	65,441,303
Consumers	321,123,855	321,123,855	150,250,984
Education	1,288,329	1,288,329	4,522,363
Electricity and oil	70,300,836	70,300,836	29,156,678
Financial services	817,061,463	817,061,463	718,006,017
Healthcare	3,369,524	3,369,524	6,664,384
Home business	-	-	467,443
Hotel and restaurants	34,506,351	34,506,351	16,861,982
International organisations	91,604	91,604	-
Maintenance	19,511,366	19,511,366	5,764,651
Manufacturing	116,835,549	116,835,549	74,088,332
Mining and exploration	161,698,972	161,698,972	133,588,123
Public service	5,779,811	5,779,811	-
Real estate	56,052,905	56,052,905	35,971,657
Social services	17,325,500	17,325,500	15,806,291
Tourism	28,159,963	28,159,963	18,169,791
Transportation and communications	87,586,180	87,586,180	39,704,891
Wholesale and Retail	120,851,499	120,851,499	119,042,709
Other	44,526,548	44,529,813	20,575,667
	2,000,260,989	**2,000,264,254**	**1,473,040,752**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

(i) corporate lending: charges over real-estate properties, inventory, plant and equipment, machinery and vehicles;

(ii) small business lending: charges over real estate properties;

(iii) consumer lending: charges over automobiles and assignment of income; and

(iv) residential mortgages: mortgages over residential properties.

The Group and the Bank also obtains guarantees from parent companies for loans to their subsidiaries and in respect of other corporate, small business and retail lending whenever appropriate but the potential benefits are not included in the above.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group and the Bank’s policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Group and the Bank does not occupy repossessed properties for business use.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Group and the Bank using internal credit ratings. The table below shows the credit quality by class of asset based on the Group and the Bank's credit rating system.

Credit quality by class of financial assets

GROUP		**Neither past due nor impaired**				
As at 31 December 2011	**Note**	**High grade MNT'000**	**Standard grade MNT'000**	**Sub-standard grade MNT'000**	**Past due or individually impaired MNT'000**	**Total MNT'000**
Due from banks	15	214,405,526	6,321,405	1,155,514	-	221,882,445
Reverse repurchase agreement	16	24,979,395	-	-	-	24,979,395
Financial investments - held-to-maturity	18	304,169,951	-	-	-	304,169,951
Loans and advance to customers						
Interbank	19	5,596,651	-	-	-	5,596,651
Corporate lending	19	657,675,443	1,184,015	11,022,881	49,468,682	719,351,019
Small business lending	19	170,102,934	9,287,648	13,634,731	24,242,626	217,267,939
Consumer lending	19	121,992,220	1,974,932	619,947	4,852,760	129,439,859
Residential mortgages	19	154,966,411	22,282,692	10,420,945	6,606,441	194,276,489
		1,110,333,659	**34,729,287**	**35,698,504**	**85,170,509**	**1,265,931,959**
Total		**1,639,164,792**	**36,161,614**	**56,466,835**	**85,170,509**	**1,816,963,750**

37. RISK MANAGEMENT (CONTD.)

37.2 Credit risk (contd.)

Credit quality by class of financial assets (contd.)

BANK		Neither past due nor impaired				
As at 31 December 2011	Note	High grade MNT'000	Standard grade MNT'000	Sub-standard grade MNT'000	Past due or individually impaired MNT'000	Total MNT'000
Due from banks	15	214,405,526	6,321,405	1,155,514	-	221,882,445
Reverse repurchase agreement	16	24,979,395	-	-	-	24,979,395
Financial investments - held-to-maturity	18	304,169,951	-	-	-	304,169,951
Loans and advance to customers						
Interbank	19	5,596,651	-	-	-	5,596,651
Corporate lending	19	657,675,443	1,184,015	11,022,881	49,468,682	719,351,019
Small business lending	19	170,102,934	9,287,648	13,634,731	24,242,626	217,267,939
Consumer lending	19	121,992,220	1,974,932	619,947	4,852,760	129,439,859
Residential mortgages	19	154,966,411	22,282,692	10,420,945	6,606,441	194,276,489
		1,110,333,659	**34,729,287**	**35,698,504**	**85,170,509**	**1,265,931,959**
Total		**1,639,164,792**	**36,161,614**	**56,466,835**	**85,170,509**	**1,816,963,750**

Credit quality by class of financial assets

BANK		Neither past due nor impaired				
As at 31 December 2010	Note	High grade MNT'000	Standard grade MNT'000	Sub-standard grade MNT'000	Past due or individually impaired MNT'000	Total MNT'000
Due from banks	15	129,380,712	47,728,663	72,789,263	-	249,898,638
Reverse repurchase agreement	16	3,997,668	-	-	-	3,997,668
Derivative financial instrument	17	4,486	-	-	-	4,486
Financial investments - held-to-maturity	18	355,658,482	-	-	-	355,658,482
Loans and advance to customers						
Corporate lending	19	399,715,064	73,303,926	40,648,733	15,697,475	529,365,198
Small business lending	19	83,523,150	6,446,493	12,886,970	13,958,752	116,815,365
Consumer lending	19	55,439,572	734,213	8,452,644	3,209,128	67,835,557
Residential mortgages	19	53,965,087	13,367,225	8,032,477	5,441,657	80,806,446
		592,642,873	**93,851,857**	**70,020,824**	**38,307,012**	**794,822,566**
Total		**1,081,684,221**	**141,580,520**	**142,810,087**	**38,307,012**	**1,404,381,840**

Past due loans and advances to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

Aging analysis of past due but not impaired loans by class of financial assets

GROUP As at 31 December 2011	Less than 30 days MNT'000	31 to 60 days MNT'000	61 to 90 days MNT'000	More than 91 days MNT'000	Total MNT'000
Loan and advances to customers					
Corporate lending	13,719,643	22,360,504	-	1,872,641	37,952,788
Small business lending	6,550,675	692,848	1,597,287	4,352,748	13,193,558
Consumer lending	2,865,815	441,403	90,106	1,455,436	4,852,760
Residential mortgages	3,164,805	1,825,486	864,158	751,992	6,606,441
	26,300,938	**25,320,241**	**2,551,551**	**8,432,817**	**62,605,547**

BANK As at 31 December 2011	Less than 30 days MNT'000	31 to 60 days MNT'000	61 to 90 days MNT'000	More than 91 days MNT'000	Total MNT'000
Loan and advances to customers					
Corporate lending	13,719,643	22,360,504	-	1,872,641	37,952,788
Small business lending	6,550,675	692,848	1,597,287	4,352,748	13,193,558
Consumer lending	2,865,815	441,403	90,106	1,455,436	4,852,760
Residential mortgages	3,164,805	1,825,486	864,158	751,992	6,606,441
	26,300,938	**25,320,241**	**2,551,551**	**8,432,817**	**62,605,547**
As at 31st December 2010					
Loan and advances to customers					
Corporate lending	-	2,654,601	-	3,284,539	5,939,140
Small business lending	2,806,062	1,545,344	1,954,785	3,558,440	9,864,631
Consumer lending	1,769,288	184,363	170,095	937,119	3,060,865
Residential mortgages	1,572,475	1,423,417	723,851	1,140,159	4,859,902
	6,147,825	**5,807,725**	**2,848,731**	**8,920,257**	**23,724,538**

Of the total aggregate amount of past due but not impaired loans and advances to customers, the fair value of collateral that the Group and the Bank held as at 31st December 2011 was MNT 120.65 billion (2010: MNT 72.60 billion). See 'Collateral and other credit enhancements' under Note 37.2 for the details of types of collateral held.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	GROUP 2011 MNT'000	BANK 2011 MNT'000	2010 MNT'000
Loans and advances to customers			
Corporate lending	18,564,736	18,564,736	17,156,519
Small business lending	4,564,485	4,564,485	7,310,836
Consumer lending	84,663	84,663	83,918
Residential mortgages	179,389	179,389	610,944
	23,393,273	**23,393,273**	**25,162,217**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group and the Bank address impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

37. RISK MANAGEMENT (CONTD.)

37.2 Credit risk (contd.)

Individually assessed allowances

The Group and the Bank determine the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of the other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances to customers that are not individually significant (including credit cards, residential mortgages and all consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Credit Division is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is also reviewed by Risk Division to ensure alignment with the Group and the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

37.3 Liquidity risk

Liquidity risk is the risk that the Group and the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group and the Bank maintain a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group and the Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group and the Bank maintains a statutory deposit with The Bank of Mongolia (the Central Bank) equal to 11% (2010: 5%) of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group and the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits from banks and other debt and borrowings due to mature within the next month. The ratio during the year was as follows:

	GROUP	BANK	
	2011	2011	2010
	%	%	%
31st December	38.9%	38.9%	51.2%
Average during the period	45.3%	45.3%	45.2%
Highest	50.5%	50.5%	51.2%
Lowest	38.9%	38.9%	38.1%

The table below summarises the maturity profile of the Group and the Bank's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations. See Note 35 'Maturity analysis of assets and liabilities' for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group and the Bank expects that many customers will not request repayment on the earliest date the Group and the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Group and the Bank's deposit retention history.

GROUP **Financial Liabilities** **At 31 December 2011**	**On Demand** **MNT'000**	**3 to 6 months** **MNT'000**	**6 to 12 months** **MNT'000**	**1–5 years** **MNT'000**	**Over 5 years** **MNT'000**	**Total undiscounted financial liabilities** **MNT'000**
Due to banks	9,311,184	-	-	-	-	9,311,184
Due to customers	1,353,605,570	234,781,932	270,818,516	18,188,979	-	1,877,394,997
Derivative financial instruments	-	-	8,245	2,562,340	-	2,570,585
Borrowed funds	1,953,392	2,494,610	2,590,217	21,564,612	38,569,385	67,172,216
Subordinated loan	119,631	547,154	15,491,370	37,930,935	-	54,089,090
Other liabilities, excluding deferred income	21,202,401	369,343	3,942,329	2,647	-	25,516,720
Total	**1,386,192,178**	**238,193,039**	**292,850,677**	**80,249,513**	**38,569,385**	**2,036,054,792**

BANK **Financial Liabilities** **At 31 December 2011**	**On Demand** **MNT'000**	**3 to 6 months** **MNT'000**	**6 to 12 months** **MNT'000**	**1–5 years** **MNT'000**	**Over 5 years** **MNT'000**	**Total undiscounted financial liabilities** **MNT'000**
Due to banks	9,311,184	-	-	-	-	9,311,184
Due to customers	1,353,707,061	234,781,932	270,818,516	18,188,979	-	1,877,496,488
Derivative financial instruments	-	-	8,245	2,562,340	-	2,570,585
Borrowed funds	1,953,392	2,494,610	2,590,217	21,564,612	38,569,385	67,172,216
Subordinated loan	119,631	547,154	15,491,370	37,930,935	-	54,089,090
Other liabilities, excluding deferred income	21,202,401	369,343	3,942,329	2,647	-	25,516,720
Total	**1,386,293,669**	**238,193,039**	**292,850,677**	**80,249,513**	**38,569,385**	**2,036,156,283**

BANK **Financial Liabilities** **At 31 December 2010**	**On Demand** **MNT'000**	**3 to 6 months** **MNT'000**	**6 to 12 months** **MNT'000**	**1–5 years** **MNT'000**	**Over 5 years** **MNT'000**	**Total undiscounted financial liabilities** **MNT'000**
Due to banks	70,762,777	6,727,307	4,025,713	-	-	81,515,797
Due to customers	898,566,566	185,758,421	262,309,950	3,596,516	-	1,350,231,453
Derivative financial instruments	-	-	-	1,506,132	-	1,506,132
Borrowed funds	1,721,579	1,126,219	2,061,345	17,569,376	10,625,097	33,103,616
Subordinated loan	494,296	465,154	930,308	49,608,196	-	51,497,954
Other liabilities, excluding deferred income	13,494,041	477,002	2,706,749	-	-	16,677,792
Total	**985,039,259**	**194,554,103**	**272,034,065**	**72,280,220**	**10,625,097**	**1,534,532,744**

37. RISK MANAGEMENT (CONTD.)

37.3 Liquidity risk (contd.)

The table below shows the contractual expiry by maturity of the Group and the Bank's contingent liabilities and commitments.

GROUP At 31 December 2011	On Demand MNT'000	3 to 6 months MNT'000	6 to 12 months MNT'000	1–5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Contingent liabilities	99,320,919	7,022,333	19,709,515	2,211,867	-	128,264,634
Commitments	473,060	12,887,701	11,102,114	5,341,163	-	29,804,038
Total	**99,793,979**	**19,910,034**	**30,811,629**	**7,563,030**	**–**	**158,068,672**

BANK At 31 December 2011	On Demand MNT'000	3 to 6 months MNT'000	6 to 12 months MNT'000	1–5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Contingent liabilities	99,320,919	7,022,333	19,709,515	2,211,867	-	128,264,634
Commitments	473,060	12,887,701	11,102,114	5,341,163	-	29,804,038
Total	**99,793,979**	**19,910,034**	**30,811,629**	**7,563,030**	**–**	**158,068,672**

BANK At 31 December 2010	On Demand MNT'000	3 to 6 months MNT'000	6 to 12 months MNT'000	1–5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Contingent liabilities	61,298,639	11,161,552	9,760,020	1,483,775	-	83,703,986
Commitments	15,714	8,518,961	12,700,887	5,906,502	-	27,142,064
Total	**61,314,353**	**19,680,513**	**22,460,907**	**7,390,277**	**–**	**110,846,050**

37.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates or foreign exchange rates. The Group and the Bank manage and monitor this risk element using VaR and sensitivity analyses. Except for the concentrations within foreign currencies, the Group and the Bank have no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Governors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group and the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2011.

Currency GROUP At 31 December 2011	Change in basis points	Sensitivity of net interest income MNT'000
USD	+120	(679,851)
MNT	+120	(96,926)
USD	-120	679,851
MNT	-120	96,926
BANK		
At 31 December 2011		
USD	+120	(679,851)
MNT	+120	(96,926)
USD	-120	679,851
MNT	-120	96,926
BANK		
At 31st December 2010		
USD	+120	(626,485)
MNT	+120	(441,414)
USD	-120	626,485
MNT	-120	441,414

Currency risk

The Group and the Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group and the Bank's management sets limits on the level of exposure by currencies (primarily USD) and in total for both overnight and intra-day positions, which are monitored daily.

The Board of Governors has set limits on the level of risk within the foreign exchange portfolio. The Group and the Bank applies a VaR methodology with a 99% confidence level to assess the foreign currency positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for changes in foreign exchange quoted by the Group and the Bank of Mongolia. VaR is a method used in measuring financial risk by estimating the potential negative change in the foreign currency portfolio held by the Group and the Bank at a given confidence level and over a specified time horizon.

Objectives and limitations of the VaR Methodology

The Group and the Bank uses three VaR methods which are the Delta Normal, the Monte Carlo Simulation and the Historical Simulation models to assess possible changes in the foreign currency portfolio based on historical data from the past one year. The VaR models are designed to measure foreign currency risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in foreign exchange and assumes that future exchange rate movements will follow a normal statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large foreign exchange moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

37. RISK MANAGEMENT (CONTD.)

37.4 Market risk (contd.)

Objectives and limitations of the VaR Methodology (contd.)

In practice the actual foreign currency results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Foreign currency risk positions are also subject to regular stress tests to ensure that the Group and the Bank would withstand an extreme market event.

VaR assumptions

The VaR that the Group and the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current foreign currency open positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Group and the Bank's foreign currency risk management, VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The model is supplementary to the corresponding risk management requirements of the Group and The Bank of Mongolia.

GROUP	Delta Normal MNT'000	Monte Carlo MNT'000	Historical Simulation MNT'000
2011 - 31st December	94,273	82,478	146,194
2011 - Average Daily	104,820	107,649	141,578
2011 - Highest	339,147	362,101	477,653
2011 - Lowest	8,632	9,046	11,103

BANK	Delta Normal MNT'000	Monte Carlo MNT'000	Historical Simulation MNT'000
2011 - 31st December	94,273	82,478	146,194
2011 - Average Daily	104,820	107,649	141,578
2011 - Highest	339,147	362,101	477,653
2011 - Lowest	8,632	9,046	11,103

BANK	Delta Normal MNT'000	Monte Carlo MNT'000	Historical Simulation MNT'000
2010 - 31st December	129,230	133,856	160,262
2010 - Average Daily	147,612	148,882	190,809
2010 - Highest	342,395	347,259	408,306
2010 - Lowest	43,671	44,471	53,374

Prepayment risk

Prepayment risk is the risk that the Group and the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group and the Bank uses simulated approach to project the impact of varying levels of prepayment on its net interest income.

The effect on profit before tax for one year, assuming the historical prepayment rate for the past one year and assuming prepayment at the beginning of the year, with all other variables held constant, would be as follows:

	GROUP	BANK	
	Effect on net interest income 2011 MNT'000	**Effect on net interest income 2011 MNT'000**	**Effect on net interest income 2010 MNT'000**
Loans and advances to customers			
Corporate	(1,320)	(1,320)	(880)
SME	(493)	(493)	(350)
Consumer	(328)	(328)	(109)
Mortgage	(421)	(421)	(104)
	(2,562)	**(2,562)**	**(1,443)**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group and the Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group and the Bank is able to manage those risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education, on-going training and assessment processes, including the use of internal audit.

38. CAPITAL ADEQUACY

The Group and the Bank actively manage its capital base to cover risks inherent in the business. The adequacy of the Group and the Bank's capital is monitored using, among other measures, the rules and ratios established by The Bank of Mongolia.

During the past year, the Group and the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Group and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Group and the Bank manage its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group and the Bank may adjust the amount of dividend payment to its shareholders, return capital to its shareholders or issue new equity or equity related securities.

38. CAPITAL ADEQUACY (CONTD.)

Regulatory capital

The Bank of Mongolia requires commercial banks to maintain a minimum core capital adequacy ratio of 6% (2010: 6%) and risk weighted capital ratio of at least 12% (2010: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Group and the Bank as at 31st December were as follows:

	GROUP	BANK	
	2011	2011	2010
Core capital ratio	9.83%	9.83%	8.81%
Risk weighted capital ratio	13.25%	13.25%	13.44%

	GROUP	BANK	
	2011 MNT'000	2011 MNT'000	2010 MNT'000
Tier I capital			
Ordinary shares	24,591,543	24,591,543	21,934,142
Share premium	22,344,874	22,344,874	-
Retained earnings	90,884,373	90,883,721	62,161,346
Other components of equity	2,393,910	2,393,910	(297,935)
Total Tier I Capital	**140,214,700**	**140,214,048**	**83,797,553**
Tier II capital			
Subordinated loans	48,872,950	48,872,950	43,976,450
Total capital /capital base	**189,087,650**	**189,086,998**	**127,774,003**

The breakdown of risk weighted assets into the various categories of risk weights as at 31st December was as follows:

	GROUP		BANK			
	2011		2011		2010	
%	Assets MNT'000	Risk Weighted MNT'000	Assets MNT'000	Risk Weighted MNT'000	Assets MNT'000	Risk Weighted MNT'000
0	498,208,082	-	498,208,082	-	477,360,275	-
20	262,457,813	52,491,563	262,457,813	52,491,563	230,662,704	46,132,541
50	269,952,860	134,976,430	269,952,860	134,976,430	127,035,722	63,517,861
100	1,229,294,576	1,229,294,576	1,229,292,275	1,229,292,275	832,133,598	832,133,598
150	6,696,078	10,044,117	6,696,078	10,044,117	5,951,836	8,927,754
Total	**2,266,609,409**	**1,426,806,686**	**2,266,607,108**	**1,426,804,385**	**1,673,144,135**	**950,711,754**

39. COMPARATIVES

Certain comparative amounts have been reclassified to conform to current year's presentation:

40. MONGOLIAN TRANSLATION

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.